Part 1
Defining the parameters

1.1 Going public

Going public—offering shares for the first time to third-party investors—is probably one of the most important decisions that can be made during the life of a company. For shareholders of family-owned businesses, it can provide a welcome source of liquidity for their holdings. But it also opens up their affairs to the scrutiny of outsiders. Through a flotation, entrepreneurial ventures can find an unparallelled source of capital to support their development. Investors buy initial public offerings (IPOs) because they offer them the opportunity to build a sizeable position in a stock, something that would in most cases be more costly and take a long time to achieve in the secondary market. Most companies coming to market for the first time also exhibit some form of IPO discount, which makes them more attractive relative to their listed peers.

There are a variety of reasons for listing a company in an IPO on a stock exchange, but these generally come down to two: selling down one or more stakes in the business, and raising additional equity capital.

1.1.1. Primary and secondary offerings

In technical terms, the raising of new money in an equity capital markets (ECM) transaction is called a "primary offering", whereas a sell-down—whether by a government in a privatization, or by long-term shareholders in a business that has, until now, remained in private hands and is now coming to market to generate liquidity (perhaps as a result of an inheritance)—is described as a "secondary offering". Often, both are combined, so that one or more existing shareholders choose to reduce their holdings, while new funds are raised to enable the business to grow. In the UK, a primary offering is called an "offer for subscription" since new shares are issued by the company

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for subscription by investors, whereas a secondary offering is, quite logically, called an "offer for sale".

Most of the time, raising new money is an easier exercise, particularly if the issuer exhibits attractive characteristics, for example, if the market can clearly see that the new funds will help finance development. By contrast, selling down one or more shareholdings in a company is sometimes viewed with suspicion by investors, especially when no remaining stakes are retained by the sellers after listing. For example, investors would probably be wary of a private equity investor exiting in full in an IPO, not only because the investor would be seen to be trying to maximize its exit price at all costs, irrespective of how the shares may trade in the aftermarket, but also because its interests would no longer remain aligned with those of new investors, post-listing. A private equity investor in such a position may therefore prefer to wait until a later date to fully cash in on its investments, perhaps through one or more further sell-downs.

Rather confusingly, the term "secondary offering" is also sometimes used to describe a follow-on transaction for a listed company, irrespective of whether new money or old shares are issued or sold. In addition, the term "primary equity" (or "primary equity market") is commonly used to describe the new equity issue market (including IPOs), whether the offerings consist of new or old shares, while the secondary market often describes that for the trading of shares, once they have become listed.

1.1.2. Others reasons for going public

Other reasons for going public can include the prestige and recognition attached to the status of a listed company, raising the profile of the business, or achieving optimal liquidity for the shares so that they can be more easily traded. In some cases, issuing new shares and listing in an IPO is a practical way to reduce the level of gearing that a company has accumulated over the years, perhaps as a result of conducting a costly acquisition, and with which it has been burdened. This is likely to become more prevalent following the recent credit crunch.

A business may want to re-focus on its core activities and spin off or de-merge a division in a newly listed company. For example, in 1995 Sandoz, the Swiss pharmaceuticals group, listed its specialty chemicals subsidiary in a US$1.4 billion international IPO. The business was, at that time, renamed as Clariant to give it a new, stand-alone, identity. Clariant subsequently developed as a new chemicals group with the acquisition in 1997 of the chemicals business of Hoechst, with further sizeable acquisitions in 2000, 2006 and 2008, while Sandoz itself merged with Ciba-Geigy in 1996 to form Novartis. More recent examples are provided in the case studies in Appendix 1.

A company can also opt to list on more than one stock exchange, for example because it has become so large, or so global in nature, that this may be a way to more easily access investors around the world, so that they can trade the shares in their own time zones. For example, Prudential, the British insurance company, conducted secondary listings for its shares in Hong Kong as well as in Singapore, in addition to its primary listing on the London Stock Exchange (LSE), at the time of its attempted acquisition of AIA (the Asian arm of AIG) in early 2010. The reason for this was to be able to more easily target and tap Asian investors in a global rights issue, in order to raise funds for the acquisition.

Similarly, a business may have evolved in a way such that there has been a significant, geographical shift in the company's activities, so a second (or even a third) listing may be a way to more closely align where the company carries out its activities with where its shareholders are located.

In some cases a company may even decide to de-list from one stock exchange and to re-list on another to try to achieve more recognition from investors, more active trading in its shares and better sell-side research coverage. One reason for this can be because the new stock exchange is larger, or has higher daily trading volumes, which may also ultimately result in a higher valuation for the business. It is believed that, in 2007 Want Want, a Taiwanese food manufacturer, de-listed from the Singapore Exchange (SGX) and, after a corporate re-organization, subsequently re-listed its shares on the Stock Exchange of Hong Kong in 2008 precisely for this reason. Similarly, Sichuan-based Sihuan Pharmaceutical, which manufactures heart drugs in China, also choose to de-list from the SGX in 2009 and to re-list in Hong Kong in October 2010 in a US$741 million equivalent IPO on similar grounds.[1] Kohlberg Kravis & Roberts (KKR)'s transfer of its listing from the Amsterdam stock exchange to New York in July 2010 followed the same logic, although in this case other considerations also applied. These are said to have included succession planning at the top level in the US, as well as potential tax considerations.[2] Indeed, sales of shares by a founder in a listed buy-out firm were at the time expected to attract a higher rate of capital gains tax (currently set at 15%) pursuant to a bill discussed in the US Senate, so this may perhaps also have influenced the timing of KKR's IPO and new listing in the US. Other private equity firms in the US, such as Carlyle and Apollo Global Management, were reportedly expected to follow suit at the time of writing.

Another factor for a re-listing can be because, historically, a market has seen listings from companies in a particular industry sector, and will attract investors more likely to understand the company's business, thereby often resulting in a higher valuation and better pricing for the IPO. This includes NASDAQ in the US for technology companies, or the LSE in the UK, the Toronto Stock Exchange (TSX) in Canada or the Australian Securities Exchange (ASX) for companies in the minerals or mining sector. At the time of writing, the LSE had agreed to acquire the TMX Group, the parent company of the TSX.

1.1.3. Duties and drawbacks associated with listing

Conducting an IPO can bring many advantages, but there are also drawbacks to becoming a public company. It is generally a costly exercise, both at the time of listing as well as over the long run because of the additional disclosure required to maintain a listing and to keep new shareholders abreast of corporate developments. Investor relations require not only a high level of transparency, which can give competitors, suppliers or customers an edge, but also a significant commitment by the management in time and resources to meet the expectations of the market.

Lastly, in extreme cases, a flotation can result in attracting unwanted shareholders (such as Bernard Arnault's LVMH taking an initial 14.2% stake for a reported US$2 billion in luxury leather goods company Hermès in France in October 2010) and even ultimately mean a loss of control over the business for the original shareholders. This could result from a takeover bid, to which listed companies are obviously vulnerable once the majority of their capital falls into public hands. Or it may happen because raising new equity from third parties, thus diluting existing shareholders, may be the only solution to rescue a business riddled with debt accumulated on its balance sheet.

1.2. Listing requirements, equity story and liquidity

Regardless of where, and how, a company decides to proceed with an international IPO, a number of factors always apply.

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1.2.1. Listing requirements

The company must satisfy the thresholds laid out by the relevant regulator or stock exchange on which it has chosen to list. These vary, but will often include a minimum track record for the business (most of the time, at least three years of operations); a minimum amount of turnover, cash-flow or net profit, or a combination of these, either based on the latest financial year, or an average over several years; or a minimum market capitalization upon IPO. Waivers can sometimes be granted, particularly for minerals, exploration or project companies. The accounting standard for the accounts in which the company reports, to be included in the prospectus published at the time of the IPO, as well as for disclosure on an ongoing basis thereafter, will also be specified.

Other common listing criteria include continuity in ownership or management, or in the type of business carried out by the company over a specified period of time. The stock exchange or regulator may also specify some requirements relating to the share capital of the company. For example, it may be a requirement that all the shares have the same voting rights. And, clearly, such shares should also be freely transferable.

Some countries also allow different classes of shares with different characteristics, values, privileges or voting rights to be issued. For example, Warren Buffet's Berkshire Hathaway, which is listed on the New York Stock Exchange (NYSE) in the US, has both Class A and Class B common stock. A share of Class B common stock has the rights of 1/1,500th of a share of a Class A common stock, except that a Class B share has 1/10,000th of the voting rights of a Class A share (rather than 1/1,500th of the vote). In addition, in this particular case, the Class A common stock is convertible at any time, at the holder's option, into a Class B common stock (but not the other way around) at the rate of one Class A share for 1,500 Class B shares. Both Class A and Class B shareholders are entitled to attend the Berkshire Hathaway annual general meeting (AGM).[3]

In the past, and particularly in the case of privatizations, the capital of some issuers was restructured to include a "golden" or "special" share, enabling governments to restrict shareholdings by foreign investors by retaining a single share with special attributes and powers. This was first introduced in the UK in the 1980s, probably in connection with the privatization of British Telecom, but quickly spread all over the world, from France to Portugal to Turkey, and as far as Malaysia, Canada and Jamaica. Golden shares were especially popular for companies in industry sectors considered as "strategic" or sensitive, for example the manufacturing of armaments or of nuclear facilities. The use of special shares has recently been contested by the European Commission during the struggle between Portugal Telecom and Spain's Telefónica for the control of Brazil's mobile telecommunications operator, Vivo, in the first half of 2010.[4] Golden or special shares are now most unlikely to be a consideration for issuers in an IPO.

To minimize both cost and embarrassment, a company's ability to satisfy minimum listing requirements should obviously be ascertained at the outset—ideally, before the start of the execution of any transaction, unless there are clear grounds for seeking an exemption from one or more of the listing criteria. In addition, a stock exchange will often require a minimum number or spread of public shareholders upon listing—typically, a few hundred to a few thousand. This is generally achieved through an offering to retail investors. In addition to, or sometimes instead of, these requirements, and to achieve good liquidity in the shares, the listing candidate will also be asked to put (and, importantly, to maintain) a proportion of its share capital in public hands at the time of, and after, the IPO (the "free float" not owned by the controlling shareholders or parties acting in concert with such shareholders). This is generally in the order of 25%, but can sometimes be a smaller proportion for very large companies.

Summaries of several principal initial listing requirements for the main boards of some of the largest stock exchanges around the world are included in Appendix 8.

1.2.2. The investment case

Any candidate for listing must have an attractive business, or what investment bankers call an "investment case" or an "equity story". A company might, for example, have an attractive equity story because it is the leader, or one of the leaders, in a fast-growing sector, because its compound annual growth rate (CAGR) in sales or margins is higher than that of its competitors, because the business generates a significant level of cash-flow on a recurring basis and intends to pay attractive dividends to its shareholders, or perhaps because it offers a unique exposure to a new sector that investors have not yet had an opportunity to buy into. Whatever the reason, there has to be a clear angle to "position" the company relative to those seen as its peers. Its performance should be sustainable and it should also offer good visibility for the future. Failing this, the response from investors to the IPO will generally be lukewarm, or the company's aftermarket performance will, over time, certainly be disappointing, as was demonstrated by the "dot com" crash in early 2000.

Importantly, the growth of a company should also be assessed on a consistent, like-for-like basis. For example, in the case of a retail company, growth within existing stores, rather than just growth by adding new stores to the company's portfolio, is a key consideration.

While listing a business simply to monetize assets can, and indeed has been, achieved, particularly in a bull market, it is key to have an original, and attractive, long-term business model to be able to tap the market on an ongoing basis and, ultimately, achieve growth in the share price. This is also true for fund companies, for example, infrastructure funds or real estate investment trusts (REITs). For these, it is important not only to have a clear focus—in terms of region, industry sector or real estate segment, or a consistent investment theme—but also to ensure that the assets making up the funds are actively managed to achieve a "total return proposition", both through organic growth and growth via acquisitions.

A company whose assets are solely or substantially comprised of cash or short-dated securities is not normally considered as suitable for listing, except perhaps in the case of securities brokerage businesses.

Since the difficult precedents set by Eurotunnel in 1987 and Euro Disney in 1989, raising equity in the public equity capital markets for project companies (i.e. companies at a very early stage of development and which may not generate substantial profits for a considerable period of time) has often become a challenging proposition. Institutional and retail investors alike have become wary of over-optimistic projections, cost overruns and construction deadlines. However, projects where significant returns are well above average, or can be guaranteed, for example by governments, have successfully been brought to market. In Australia, there have been many IPOs of such companies, in the infrastructure sector in particular, both as a result of clever structuring and marketing (including co-investment by the lead banks) and because of the significant domestic pension and superannuation sector there, which is particularly hungry for stable yield investments.

1.2.3. Strategic investors

The profile of a company being listed in an IPO can sometimes be raised with the inclusion of one or more strategic investors, often coming on board at a relatively early stage during the execution process. These can, for example, be corporates in the same line of business as the company or in a line of business complementary to that of the company and taking a minority stake in the capital of the issuer. Or they can be private-equity investors, or even investment banks. It is, in fact, relatively common for IPOs of Chinese companies on the Stock Exchange of Hong Kong to attract investment banks as strategic investors. These investment banks use their own balance sheets, sometimes to help secure the mandate to lead the IPO, and with a view to crystallizing a significant capital gain over time, after the company has started trading as a listed entity.

Investments by strategic investors are generally subject to a lock-up, that is to say, they are prevented, either pursuant to a contract with the company or by stock exchange regulations (or both), from selling their stakes in the company for a period of time after the IPO, most commonly six months. Strategic pre-IPO investments can be carried out in a number of ways. They can take the form of a straightforward investment in ordinary shares, or can be by way of other securities, such as bonds convertible into shares, or convertible preference shares. Such investments are generally made at a significant discount to what will be the valuation of the company at IPO, to reflect the early stage of an investment in what is, as yet, an unlisted business. In some cases, such investments can even be made at nominal value, thereby resulting in significant capital gains upon exit. Price re-adjustments to pre-IPO investments made closer to, or even after, the launch of the IPO, however, are often frowned upon by regulators, for example in Hong Kong.

The terms sheets for such investments also often include a number of conditions, as well as indemnity and termination clauses. Stock exchanges generally have rules to govern the use of pre-IPO commitments, particularly pricing formulas and the maximum size of such investments relative to the share capital of the company; this information should be disclosed in the prospectus for the IPO.

Strategic pre-IPO investments are distinct from pre-IPO commitments by cornerstone investors (described in more detail in Section 2.12.7) in that cornerstone investors generally come in at a much later stage, commit to paying the IPO offer price as do other investors, and do not therefore have the benefit of a discount. They are, however, guaranteed sizeable allocations at an early stage in the marketing process for providing early momentum and leadership.

1.2.4. Going-public convertible bonds

On occasion, a company or its shareholders may seek to raise funds in the public markets prior to the issuer actually being ready to float in an IPO. In such cases, the company may choose to issue a going-public bond, convertible into the shares of the company once it becomes listed. Alternatively, the shareholders may issue a bond exchangeable into shares of the company upon listing. Such a structure is a fairly rare occurrence and most pre-IPO convertible bonds are unlisted, private transactions, but there are a number of precedents: some, relating to early privatization attempts in Turkey, go as far back as the early 1990s.

More recently, in 2006, Angara Mining, a UK producer of gold in Siberia, issued a two-year US$50 million bond listed on the LSE through Nomura and URALSIB Financial Corp. with a 7% coupon, convertible into its shares upon listing. In the event that listing did not happen within a specified timeframe, the bonds were to be redeemed at 140% of their principal amount as a penalty, together with accrued interest. The pre-IPO convertible bonds (the first ever issued by a UK company in the public markets) were successfully placed with a small group of institutional investors.[5] In the end, however, the bonds were redeemed.

In Asia, also in 2006, Golden State Environment, a waste-water treatment company in mainland China, raised, through Merrill Lynch, US$150 million in a privately placed, seven-year going-public convertible bond with a 6% coupon, stepping up to 9% after two years so as to encourage an early listing. Like the Angara Mining bonds, redemption upon maturity was at a premium to par.[6]

Other examples from that same year include a US$130 million two-tranche pre-IPO convertible offering for Greentown China Holdings, a leading property developer in mainland China, led by JPMorgan; and a US$3.5 billion pre-IPO Islamic bond (*sukuk*), listed in Dubai and convertible upon listing, for Dubai Ports World, a leading company in international marine terminal operations and logistics, which was led by Barclays Capital and Dubai Islamic Bank.[7]

More recently, Glencore, the world's largest commodities broker, which is incorporated in Switzerland, issued in December 2009 a US$2.2 billion going-public convertible bond to investors including BlackRock, Government of Singapore Investment Corporation (GIC) and private equity firm First Reserve Corp., giving the company a pre-conversion equity value of US$35 billion, equivalent to nine times its 2009 EBITDA. At the time of writing, the company was reportedly contemplating a multi-billion-dollar IPO, with a dual listing on the LSE and in Hong Kong in 2011.[8]

1.2.5. Special purpose acquisition companies (SPACs)

Special purpose acquisition companies (SPACs) are shell or blank-cheque companies that undergo an IPO and are listed with a view to acquiring a business or company at a later stage. They are sold on the basis of the experience of the management team, and enable the team to use the proceeds of the SPAC's IPO to invest in the business or company. SPACs became widespread in the US after 2000, although a handful have also been listed in Europe, including Liberty International Acquisition Company, which listed in Amsterdam in a €600 million IPO in 2008.[9]

SPACs usually take the form of a combination of ordinary shares and warrants and can trade either as a unit or with the shares and warrants separately quoted. All (or the vast majority) of the proceeds raised in the IPO of a SPAC are held in a trust, and there is a specified period of time, usually 12 or 18 months, following the IPO for the management of the SPAC to sign a letter of intent to conduct, or effect, a merger or acquisition. Failing this, the SPAC is dissolved and the money returned to its shareholders. The shareholders of a SPAC must also generally vote to approve such merger or acquisition, after which the SPAC effectively becomes a "normal" company, and full disclosure is made of the target business when seeking approval. In this regard, SPACs are different from the blind-pool companies listed in the US in the 1980s and 1990s.

SPACs usually have a particular focus in terms of industry or geographical coverage. For example, a SPAC may target the acquisition of a business in China, reflecting the experience of its management team. Management teams are usually unpaid but receive a proportion of the equity upon IPO, typically 20%, in addition to purchasing warrants prior to the IPO.

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http://site.ebrary.com/lib/ttul/Doc?id=10506549&ppg=31

1.2.6. Stand-alone business and insider ownership

A listed company should be able to operate independently and should own its key operating assets as well as the contractual and intellectual property rights necessary to the conduct of its business. Where such assets (or rights) are held by another (usually a related or connected), company or individual, they must be transferred to the listing candidate and an appropriate group re-organization should be carried out. Fair value should also be paid as consideration for such transfer to avoid unfortunate legal and tax consequences. Where a group re-organization is implemented, care should also be taken at the same time to optimize the company's tax efficiency.

Investors also look for companies where the interests of the management are aligned with theirs. Appropriately incentivizing a number of senior management insiders through stock options or a similar scheme is generally well received by the market.

1.2.7. Liquidity and transaction size

Lastly, and irrespective of the minimum listing criteria defined by the stock exchange, it is essential that the business—and therefore the market capitalization and free float—is large enough to prevent the company from becoming an "orphan stock", i.e. a company with no trading liquidity or investor following, after the IPO. There are two closely related reasons for this. First, larger, and therefore more widely held, listed companies achieve higher trading volumes. While there will generally be a spike in the average daily trading volume (ADTV) in the first days, or even weeks, following any IPO, for smaller companies, such ADTV will often trickle down to a fairly low level, once the initial interest has subsided among investors. Secondly, listed stocks that achieve a high ADTV are regularly followed by the sell-side, that is, employed by brokers and investment banks, and the buy-side, i.e. working for institutional investors or hedge funds, research analysts. This, in turn, contributes to generating interest, and therefore further liquidity, in these securities.

For the most part, smaller companies are not researched (or at least not as well researched) by analysts, and often exhibit a much lower market liquidity. This can hinder further capital-raising exercises, as the amounts to be raised will invariably represent high multiples of the ADTV and will therefore not be easily absorbed by the market.

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Hong Kong, HKG: Hong Kong University Press, 2011. p 11.
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What should be the ideal minimum size for a company to conduct an IPO? This varies from market to market. Some brokers and boards of stock exchanges even specialize in mid- or micro-caps or smaller capitalization companies. As a general rule, however, the larger, so-called "bulge-bracket" investment banks (those firms that regularly dominate the IPO league tables) will typically set a minimum market capitalization threshold of around US$250 million to US$400 million equivalent (with an average free float or typical IPO size of about US$50 million to US$100 million). Below this minimum, an IPO becomes not only much more challenging to distribute but also, importantly, not a profitable enough exercise for the lead brokers. Smaller IPOs are obviously feasible, particularly if the company posts strong growth or offers very clear visibility to investors, or if the lead bank is appointed on a sole basis. Smaller brokers with lower overheads and a different corporate and institutional client base naturally have lower thresholds.

It should be noted that investment banks generally have no such minimum size criteria for follow-on transactions, that is, for ECM offerings for companies that are already listed. This is because the amount of preparation work necessary for their execution is greatly reduced. Block trades of existing shares often require minimal documentation beyond a simple sale and purchase agreement and, perhaps, placing letters. Even when a prospectus is required in the case of a fully marketed offering, the precedent documentation created at the time of the IPO and available as a result of ongoing filings with the regulator or stock exchange make placements easier and much faster to execute.

1.3. Selecting the optimal listing location

Selecting the optimal listing location is not an easy task for a board of directors, and many considerations need to be taken into account. In some cases, stock exchanges only allow listings of companies of a certain nationality. For example, for a long time, the Stock Exchange of Hong Kong only allowed companies incorporated in Hong Kong, the People's Republic of China, the Cayman Islands and Bermuda to list in Hong Kong. This prevented many companies from listing there, unless they carried out an extensive restructuring exercise. The policy has recently evolved to allow listings in Hong Kong by issuers from a variety of other countries (see Appendix 8).

However, more often than not, issuers nowadays, particularly those that manage their business on a global basis, can choose from many possibilities when it comes to listing their shares in an IPO.

However, listing shares without offering stock for sale at the same time—perhaps through a "backdoor" listing by purchasing a listed shell company; by way of introduction if the company already has a sufficient spread of public shareholders; or by establishing a level 2 sponsored American depositary receipt (DR) programme in the US (see Section 2.15.3.2)—is unlikely, in most cases, to achieve initial significant trading volumes or to generate much investor interest. Again, and despite its large size, Prudential is a case in point: it achieved trading volumes in Hong Kong and Singapore representing only a small fraction of those on its primary listing in the UK after listing on these Asian stock exchanges by way of introduction in 2010.[10] Similarly, the listing by way of introduction of mining Brazilian giant Vale in Hong Kong that same year also resulted in poor liquidity.[11]

1.3.1. Choosing the right listing location

Other than for companies where there is an obvious, natural anchor market, a practical way to decide on a listing location can be to list, analyze and grade a variety of factors in a matrix. The following example examines the case of a large European consumer goods company, with significant activities in Asia (see Table 1). Each line assesses how major listing considerations are matched across various listing locations. For example, in the case of this European company, listing on NYSE Euronext (in Amsterdam, Brussels, Lisbon or Paris) or on the LSE would better match the location of its headquarters than a listing in the US or in Asia. One "tick" identifies those listing locations that partly satisfy each criterion; those with two ticks meet the requirement; and those with three ticks fully meet the relevant consideration.

Most major markets nowadays will generally have a solid corporate governance framework, a good degree of transparency, and the rule of law with an independent judiciary system. The clearing, trading and settlement infrastructure will vary, particularly in the case of emerging markets, but, generally, there are no major material differences.

Listing on a well-regulated and transparent exchange with comprehensive listing requirements will often attract better classes of investors, a deeper pool of funds, better liquidity, and wider sell-side research coverage. It may also ultimately lead to a better valuation being achieved than by listing on a less

	NYSE Euronext	New York Stock Exchange	NASDAQ	London Stock Exchange	Stock Exchange of Hong Kong	Singapore Exchange	Tokyo Stock Exchange
Location of headquarters	✓✓✓	✓	✓	✓✓	✓	✓	✓
Country of incorporation	✓✓✓	✓	✓	✓✓	✓	✓	✓
Profile and prestige	✓✓	✓✓✓	✓✓	✓✓✓	✓✓	✓	✓✓
Match with geographical profile of revenues	✓✓	✓	✓	✓✓	✓✓	✓✓	✓
Index considerations	✓✓	✓✓	✓	✓	✓	✓✓	✓
Peer group compatibility	✓✓	✓	✓	✓	✓✓	✓✓	✓
Achievable and sustainable valuation multiples	✓✓	✓✓	✓✓	✓✓	✓✓✓	✓	✓✓
Acquisition currency	✓	✓✓	✓✓	✓	✓✓✓	✓✓	✓
Initial listing requirements	✓✓✓	✓	✓	✓✓✓	✓✓	✓✓✓	✓
Ongoing listing requirements	✓✓✓	✓	✓	✓✓✓	✓✓	✓✓✓	✓
Accounting and GAAP*	✓✓✓	✓	✓	✓✓✓	✓✓✓	✓✓✓	✓
Listing fees and costs	✓✓✓	✓	✓	✓✓	✓✓	✓✓✓	✓
Access to key institutions	✓✓	✓✓	✓	✓✓✓	✓✓	✓✓	✓
Access to retail investors	✓✓	✓	✓	✓	✓✓✓	✓	✓✓
Research coverage	✓✓✓	✓✓	✓	✓✓✓	✓✓	✓	✓

* GAAP = Generally agreed accounting principles

✓ = partly meets requirement; ✓✓ = meets requirement; ✓✓✓ = fully meets requirement

Table 1

Examples of listing considerations across various stock exchanges

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Hong Kong, HKG: Hong Kong University Press, 2011. p 14.
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strictly regulated exchange, even though, at first glance, this may appear as an easier and less demanding market on which to list.

1.3.2. Domicile and country of incorporation

The location of group headquarters and the country of incorporation are straightforward but key considerations, and take into account the time zone in which senior management operate. They should ideally match the listing requirements laid out by the relevant exchange.

1.3.3. Profile and prestige

The profile and prestige that can be achieved by listing on a particular stock exchange typically derive from the market capitalization, average size and number of companies listed in that market, especially peers. Listing on a large or prestigious market, however, is not necessarily a guarantee of success. The French media company Vivendi Universal (as it was called at the time) listed its shares on the NYSE, in addition to its home listing in Paris, in 2000 to facilitate its merger with Seagram and enhance its profile. It decided, however, to de-list from the NYSE a few years later in 2006, following the low trading achieved on that market, which represented less than 5% of total shares traded in both 2004 and 2005,[12] and because of demanding ongoing disclosure requirements and the resulting high costs associated with maintaining a listing in the US. Vivendi nevertheless re-established an unlisted, less onerous level 1 ADR programme in the US in late 2008 (see Section 2.15.3.1).[13]

Similarly, companies such as AXA from France, OTE (the Hellenic Telecommunications Organization) from Greece, and Allianz, Daimler, Infineon Technologies and Deutsche Telekom from Germany also followed suit with de-listings from the NYSE in 2010. Allianz had earlier announced in 2009 its intention to also de-list from the LSE, Borsa Italiana in Milan, NYSE Euronext in Paris and the SIX Swiss Exchange in Zürich, although at the time of writing only the de-listing from the SIX had been completed. BASF, Bayer and E.ON—all German companies—had earlier also chosen to voluntarily de-list from the NYSE in 2007.[14]

1.3.4. Matching the profile of revenues

Matching the geographical profile of a company's revenues with a particular listing location is an interesting proposition. In the first half of 2010 the

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Hong Kong, HKG: Hong Kong University Press, 2011. p 15.
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cosmetics company L'Occitane—incorporated in Luxembourg but with French origins—decided to list in Hong Kong, rather than in Paris on NYSE Euronext, because the largest proportion of its turnover at the time of listing, and probably an even larger proportion of expected sales, were in Asia.[15] A case study of the IPO of L'Occitane is included in Appendix 1. While few companies have to date taken a similar decision, this will certainly become more prevalent as businesses become more global. For example, in mid-2010, the Italian luxury goods company Prada was said to be considering a listing in Hong Kong in response to awareness of the brand and activity among retail investors in Asia, a decision that was later confirmed in January 2011.[16] However, the additional pressure on management servicing a listing in such a distant time zone must be carefully considered.

1.3.5. Index considerations

Another criterion which can be taken into consideration is the likelihood of the company being included in relevant market indexes, for example the DAX in Germany, the IBEX in Spain, or the TOPIX and NIKKEI 225 in Japan. The composition of indexes is reviewed regularly (often on a semi-annual or quarterly basis), and generally on the basis of market capitalization, free float or trading volumes. For larger, and particularly liquid, companies, this can be relevant since inclusion in a significant, highly followed index means automatic, passive buying of their shares by institutional investors benchmarked to index performance. There is also clearly an element of prestige associated with the fact that a company can claim to be a member of the Footsie, CAC 40 or Hang Seng indexes. For example, Essar Energy, an Indian energy company listed in May 2010 in a billion-dollar IPO on the LSE, was subsequently included in June 2010 as a constituent of the prestigious FTSE 100 index.[17] A case study of the IPO of Essar Energy is included in Appendix 1. As another, recent example, Agricultural Bank of China (ABC) was included in the Shanghai SSE 50 and SSE 180 indices shortly after the start of trading of its A shares in its US$22.1 billion global (A and H share) IPO, resulting in significant buying by passive index funds in mainland China. This reportedly helped support the share price in the immediate aftermarket, helping the exercise in full of the over-allotment option for the A share portion of the offering and ABC to claim the title of the largest-ever (at the time) global IPO on a world-wide basis.[18]

Philippe Espinasse. IPO.
Hong Kong, HKG: Hong Kong University Press, 2011. p 16.
http://site.ebrary.com/lib/ttul/Doc?id=10506549&ppg=37

1.3.6. Valuation considerations

Valuation, and the existence of a group of companies against which the company may be benchmarked, are also important issues. However, these should not be looked at in isolation. Many foreign companies proceeded with secondary listings on the Tokyo Stock Exchange (TSE) in the 1980s and in the early 1990s after considering the very high P/E ratios typical of that market at the time, only to achieve low trading levels there, with many issuers choosing to de-list in later years after having also spent considerable amounts of time and money to comply with Japanese ongoing listing and disclosure requirements. For example, recent voluntary de-listings from the TSE include those by AEGON, Deutsche Telekom and UBS in 2010; BNP Paribas in 2009; Alcatel-Lucent, Barclays, Bayer, Boeing, BP and Société Générale in 2008; Henderson Land, Volkswagen and Westpac in 2007 and DaimlerChrysler, Deutsche Bank and National Australia Bank in 2006.[19]

It may perhaps make sense for a high-growth technology company to try to obtain a higher offer price by listing on NASDAQ, given that market's industry focus, and irrespective of its country of incorporation, provided it can fulfill the listing requirements. But, in the end, achieving, and most importantly, sustaining, a high valuation are more a function of the intrinsic characteristics of a listing candidate than of the average multiple for a given market, provided there is enough liquidity in the counter.

1.3.7. Initial and ongoing listing requirements

A listing candidate should obviously be able to fulfill both initial and ongoing listing requirements, which include being able to produce and publish accounts in the accounting standards required by the relevant regulator or exchange at prescribed intervals. For example, this can entail the annual filing by certain foreign (i.e. non-US) issuers of Form 20-F with the Securities and Exchange Commission (SEC) through the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system in the US. Disclosure can also prove demanding and costly in the long run. This may require segmentation of revenue, profits or assets, certification of financial statements or disclosure of management compensation; it may also include local regulations, perhaps pertaining to the composition of the board, the requirement to set up board committees, or rules on internal financial controls. For example, the Sarbanes-Oxley legislation for companies listed in the US introduced, among other things, certain potential

Philippe Espinasse. IPO.
Hong Kong, HKG: Hong Kong University Press, 2011. p 17.
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personal civil and criminal liabilities for chief executive officers (CEOs) and chief financial officers (CFOs). This prompted some non-US companies to shy away from listing in the US and others to seek a de-listing from the NYSE or from other exchanges there (also see Section 1.3.3).

Most large stock exchanges now have a smaller market or "second board" in addition to the "main board" for fast-growing companies at an early stage of development to list. Such second boards often have more flexible listing requirements, although generally at the expense of liquidity and research coverage. Indeed, many companies listed on second boards often exhibit a low level of trading activity and following both by sell-side research analysts and investors. Examples of these second boards around the world can be found in Appendix 8.

1.3.8. Targeting investor types

While institutional investors are increasingly global in nature, each market has its own rules and characteristics. Understanding these can help a company make the appropriate choice when it comes to achieving the desired investor mix. For example, in the case of a heavily oversubscribed public offer, the rules of the Stock Exchange of Hong Kong require an automatic "claw-back" of shares from institutional to retail investors. In cases where the retail tranche, which is generally set at only 10% initially, becomes subscribed more than 100 times, which is not uncommon, 50% of the IPO will usually be automatically allocated to retail investors (see Appendix 8). Such claw-back is compulsory, whether high-quality institutional investors have placed orders or not. As a result, the registers of Hong Kong–listed companies often include at the outset a high proportion of retail shareholders. Australia and Japan are examples of other countries with a high retail investor bias in IPOs. By contrast, the rules in Singapore do not provide for such claw-back provisions and retail tranches there are generally in the order of 5% to 10% only. Accordingly, liquidity in the Singapore primary equity market is more driven by institutional investors.

1.3.9. Research coverage

Lastly, as we have seen earlier, the likelihood of a company becoming actively covered by research analysts should also be taken into consideration. This is, in part, determined at the time of the IPO. The syndicate of banks should include enough houses with good research capabilities to allow for reasonable initial coverage, both prior to the launch of the offering, and after the initial embargo or "blackout" period for research publication has expired, but also on a continuing basis. It is therefore important to identify research analysts who actively follow peer companies, as well as sector and country analysts who are "ranked" highly by institutional investors in independent surveys, such as the Greenwich, Peter Lee or Institutional Investor surveys. Obviously, relatively close proximity to where management is located will facilitate coverage and communication.

1.3.10. Dual and multiple listings

What about listing in multiple locations? There may be good, or sometimes "political", reasons for this. In 1999 Amadeus GTD, the global travel distribution company initially listed in Madrid in a US$900 million equivalent IPO led by UBS Warburg (with Merrill Lynch as junior partner), but proceeded with secondary listings in Paris and Frankfurt immediately after, reflecting the nationality of its shareholders at the time (Iberia, Air France and Lufthansa, with Continental Airlines selling its stake in the business in the IPO). Amadeus GTD was subsequently privatized by private equity investors, restructured and floated again in 2010 under the name Amadeus IT Holdings S.A. in a €1.32 billion IPO in Spain led by Goldman Sachs, JPMorgan and Morgan Stanley.[20]

Listing requirements for secondary listings on most stock exchanges are usually less onerous than those for a primary listing. However, dual (or indeed multiple) listings generally only make sense for extremely large corporates. Even in these cases, most of the trading in the shares will occur on what is perceived by investors to be the home or anchor market, with often rapid "flow-back" of shares from the secondary market to the home market. In some cases, as previously mentioned, this becomes so extreme that it is uneconomic to maintain the secondary listing or listings, and ultimately necessary to de-list the shares from these exchanges altogether. It should be noted that de-listing is not necessarily a straightforward exercise in some markets. It is a complex process in the US and Japan (in the US, de-registering from the SEC is even more difficult), particularly while a minimum number of local, including retail, shareholders remain. For example, Magyar Telekom, the Hungarian telecommunications company 59.5% owned by Deutsche Telekom and also listed on the Budapest stock exchange, announced its intention to de-list from the NYSE in mid-2010.[21] However, it was reported at the time to be facing some difficulties in effectively implementing this decision since more than 5% of its registered equity was traded on the NYSE, with a de-listing being only possible below that crucial threshold.[22]

In addition, undertaking further capital raising for companies listed on more than one stock exchange can be a cumbersome exercise, especially when rights issues are conducted. For example, different jurisdictions may have different rules for whether rights can trade separately and for how long, as well as different settlement methods. This is addressed in greater detail in Section 4.3.2.

1.3.11 Tickers and codes

Once listed, a company is generally assigned a "ticker". This unique symbol often comprises three or four letters, or numbers, and serves to quickly identify the stock on trading screens, for example, KO for Coca Cola or WMT for Walmart (previously known as Wal-Mart) in the US or 5.HK for HSBC in Hong Kong. A listed stock is also assigned other, longer alpha numerical codes, generally an International Securities Identification Number (ISIN), which comprises 12 characters, a Stock Exchange Daily Official List (SEDOL) code of seven characters in the UK and Ireland, or the first six characters of a CUSIP (Committee on Uniform Security Identification Procedures) alphanumeric code, which is used to identify issuers and trades in securities in North America. More examples of tickers, ISINs and CUSIPs are provided in the case studies in Appendix 1. Other codes can also be used in other countries, such as a Valor number (incorporated in the Swiss ISIN number) to identify listed securities in Switzerland, or a Wertpapierkennummer (WKN) which does the same in Germany.

1.4. The IPO corporate management team

From the standpoint of the issuer, lead banks and third-party advisers, it makes sense to appoint a dedicated, IPO corporate management team. The size of such team will vary from company to company, and from deal to deal, but selecting a small number of individuals fully dedicated and committed to the IPO throughout the duration of the transaction not only ensures continuity, but also provides a focal point for enquiries from all parties appointed to execute the offering. The team can be retained for a number of months, and sometimes up to a year, or more. It can also help prepare the company for forming an investor relations (IR) department following the listing (see Section 4.2.5).

The CEO or the CFO should not necessarily form part of this IPO management team—they already have enough on their plate running the day-to-day business of the company—but should instead remain on call for important due diligence meetings, and to help resolve thorny issues. They will obviously become very much involved towards the later stages of the deal during the marketing phase, the roadshow and pricing. In the initial stages, however, and with the exception of high-level due diligence meetings focused on the company's strategy, their participation on a regular basis will probably be limited to fortnightly steering committee meetings.

Seasoned, mid-level executives are ideal to act in what is in effect a coordination role. Some may have experience of capital markets, as ex-investment bankers, IR specialists or market practitioners. Those with a legal background, particularly ex-securities lawyers, are also well suited to discussing the drafting of the prospectus with other advisers, as well as negotiating the various agreements that will evidence underwriting arrangements.

In some markets, such as in Hong Kong, the prospectus will need to be published in more than one language, in this particular case, in both English and Chinese. Language skills should therefore also be taken into consideration.

Once the IPO management team is chosen, one or more investment banks should be selected and appointed to lead the transaction.

1.5. Who does what in an investment bank?

Investment banks are complex organizations, with a variety of divisions, departments and teams. A number of areas will be involved in any IPO, at various stages throughout the transaction.

1.5.1. The banking side

Broadly speaking, some investment bankers are "within the Chinese wall", that is to say, they have access, and can discuss confidential information not generally known to the market with their corporate, government or institutional clients. These include bankers working on mergers and acquisitions, either with a country or a sector focus, as well as those dedicated to corporate finance or the raising of capital for their clients, either in the form of equity, debt, or hybrid capital such as convertible or exchangeable bonds. In an IPO, in addition to equity specialists, some debt capital markets bankers may also be involved if the issuer has a strong yield bias, for example in the case of a REIT or an infrastructure fund. To simplify, I will refer to bankers within the Chinese wall as the "banking" side of the firm.

1.5.2. The markets side

Others are "outside the Chinese wall" (or on the "markets" side of the bank) and focused exclusively on market activities, that is researching, selling or trading equities, fixed income products, commodities, currencies or derivative products, with extensive back office and operations departments for the administration and settlement of trades. Research analysts, which are described in greater detail below, follow a particular type of security, often with a sector, regional or country focus; they discuss with, and recommend investment ideas to, investors, and publish reports on individual (or groups of) stocks. Salespeople are tasked with selling securities in their area of focus to a group of institutional investors, and are supported in their selling efforts by research analysts. By contrast, traders or market makers buy and sell securities in the financial markets either on behalf of clients served by salespeople, or for the account of the bank itself (in the case of proprietary traders). Sales traders talk directly to clients to promote new investment ideas and also provide market execution. Their clients are institutional investors (pension funds, asset managers, mutual funds, insurance companies, charities, hedge funds or sovereign wealth funds), other banks (including proprietary trading desks and private banks), Treasury departments of companies, or high net-worth individuals.

In some cases, the terms "investment bank" or "investment banking" only refer to the banking side of the business rather than to both the banking and markets side of a firm.

There is an inherent conflict of interest between both sides of the Chinese wall in an IPO in that, while investment banks try to achieve the best value for their corporate clients in an IPO or other ECM transactions, they also serve their institutional clients in the secondary market. The objectives and interests of these clients are at the opposite of those of new equity issuers, i.e. to pay as little as possible for the securities on offer. Such conflicts of interest are managed in ECM departments and equity syndicate desks under the supervision of compliance departments, where both sides of the equation are taken into account, resulting in the company and the selling shareholders issuing and selling shares at the best price that the market can pay, following an extensive marketing exercise targeted at investors.

1.5.3. Other areas within the investment bank

All investment banks also have support departments dedicated to the analysis and control of risk and credit, as well legal and compliance departments, to ensure that contracts entered into by the bank do not breach laws, regulations or internal guidelines, that regulators and other authorities are kept abreast of relevant developments, and that the Chinese walls between the various departments are properly maintained and strictly enforced. Compliance departments also run "control rooms" to check pre-deal and other research reports published by the bank. Control rooms in the context of IPOs will be explained in more detail later.

Also involved in IPOs are the investment banks' corporate communications departments which can be found in most sizeable firms. Although during the execution of a transaction they will usually simply be tasked with providing a "no comment" response to enquiries from the press, they may, on occasion, be called on to help defuse or resolve issues concerning the issuer, its business or the IPO process itself, perhaps arising as a result of investigations by a particularly inquisitive (or biased) journalist. In addition, they will help promote the bank's credentials and involvement in a particularly successful transaction after the IPO, and also lobby for the bank and its issuer clients to receive some of the many industry awards presented by the financial press.

Investment banks have dedicated committees to decide on new business they take on, and, crucially, on the level of fees they will charge for such business. These generally meet regularly (often weekly) at larger banks. Other committees, generally called underwriting or commitment committees, are also convened in an IPO, as well as for other ECM transactions. Typically, they will meet prior to a transaction becoming "public", that is, just prior to the publication of pre-deal research (when allowed); at the time of determining the price range for the IPO; and prior to the pricing and actual underwriting of a deal. Such committees will generally include senior representatives from both the banking side and "permanent insiders" (for compliance purposes) from the markets side, as well as senior legal and compliance staff and people from the risk management and credit departments. On particularly difficult transactions, when lengthy negotiation may become necessary with the issuer, for example at the time of pricing, the underwriting committee may need to be convened several times at short notice, often by way of conference calls.

It should also be noted that, in most jurisdictions, client-facing investment banking staff need to hold relevant licenses with local regulators. Such licenses are often granted after the bankers or brokers have sat and successfully passed professional examinations, which typically take the form of one or more multiple-choice tests, such as the "Series 7" examination in the US.

1.5.4. Outside the investment bank

Most large investment banks generally have separate private banking (or wealth management) and asset management arms, which are treated at arm's length by the banking and markets areas, although some private banks (such as Credit Suisse, Deutsche Bank, HSBC, Barclays or UBS) also have dedicated, in-house groups of investment bankers, servicing their own clients for mergers and acquisitions (M&A) or capital-raising transactions.

See Figure 1 for a high-level diagram of the various departments (or divisions) both within and outside of an investment bank involved in an IPO.

1.6. Investment banking business titles

Business titles in investment banks look grand. They are often confusing to people not working in the industry. There are slight variations from bank to bank, but career progression and equivalents between titles are generally fairly easy to understand.

1.6.1. Entry level and beyond

Irrespective of the department or area of the bank in which one works, a fresh university graduate will start as a graduate trainee, analyst or business analyst. This is not to be confused with research analysts, who research, and publish reports on, listed companies to support sales efforts of securities to institutional investors. However, an analyst could be employed in a research department as a junior research analyst or research assistant. As is common in the UK and in the US in particular, analysts are often hired on campus

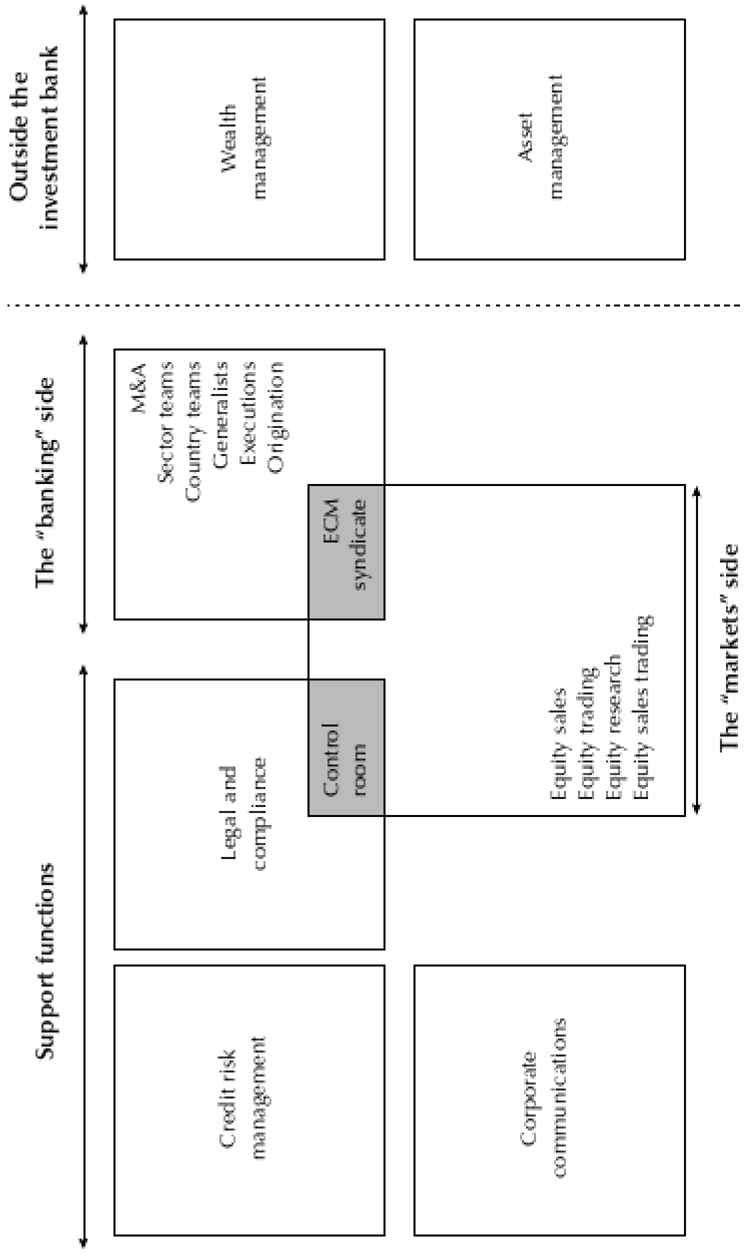

Figure 1
The main departments of an investment bank involved in an IPO

as part of a large intake of new hires once or twice a year. Well-structured summer internships including rotation among various departments, as well as a mixture of on-the-job training and in-house academic courses, are a good opportunity to spot talent early, and a high proportion of fresh graduates will often have spent some time in a summer job in an investment bank before being recruited into the entry programme.

Front office, entry-level staff often spend much of their early years drafting and putting together presentations to pitch for new business (see Section 1.9.2) and writing minutes of meetings with clients. I spent a considerable amount of time as a graduate trainee writing briefing notes for the chairman of S.G.Warburg, Sir David Scholey, on the clients he was meeting around the world. This involved reading through annual reports and management files and enquiring about current marketing initiatives and transactions with colleagues throughout the firm. A demanding and time-consuming but, ultimately, formative exercise.

Entry-level staff are usually promoted to the level of senior analyst or associate after one or two years. At this stage, in the US in particular, it is common for junior investment bankers to leave to study for an MBA, and then re-join the industry after a couple of years. They will remain at this level, sometimes becoming senior associates in the process before promotion to the rank of manager, senior manager or, more frequently, associate director or vice-president, again for a few more years.

1.6.2. The senior ranks

The next level up is director or senior vice-president, often followed by that of executive director. Again, employees will generally stay a few years in each role. Importantly, it should be noted that the title of director or executive director does not indicate any board membership or affiliation. Accordingly, these titles are generally followed on business cards by the name of the department in which the individual works.

The most senior levels are managing director, sometimes senior managing director, and, for some investment banks that have retained such a structure, there may also be a partnership level. For example, Goldman Sachs has managing directors and more senior, partner managing directors. The Australian investment bank Macquarie has both managing directors and division directors at the same level, depending on the country or region in which they work, whereas its higher, de-facto partner rank is the executive

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director level. The primary responsibility of front office managing directors is the origination of new business.

Lastly, there will often be a further senior layer with several vice-chairmen, chairmen or presidents, often without defined team leadership responsibilities, but dedicated to senior client coverage or to ensuring senior representation for the firm.

1.6.3. Head titles

There are many "head" titles in investment banks. There are country heads (for example, head of China investment banking), product heads (such as head of M&A, head of ECM—all of which can have global, regional, sub-regional or dedicated country or sector responsibilities), heads with sub-product responsibilities (global head of equities, then global head of cash equities, followed by head of Asia cash equities, with further sub-heads for Hong Kong, Singapore etc.), heads of product origination and heads of product execution, heads of industrial sectors (for example head of telecoms, media and technology, which may include several sub-sectors, all of which would each have their dedicated head). In fact a head may often have a very small (or sometimes no) team reporting to him or her. Global heads, as the name indicates, have world-wide responsibility, with various local or regional teams reporting to them, and are generally the most senior bankers within an investment bank. These should not be confused with local or regional heads of a global business, for example, head of Singapore global debt capital markets, who have a much narrower scope of responsibilities.

In a further twist, some banks have a generic title structure, with different, equivalent titles in various regions, reflecting local market practice. For example, HSBC investment bankers are assigned a numbered grade indicating seniority, irrespective of their marketing title. Other investment banks, in the Asia-Pacific region in particular, also have similar arrangements. This can all be rather tricky to grasp, particularly when several investment bankers from the same bank, with different title structures, are working on the same IPO.

The key is to remember that investment banking is a particularly specialized and very compartmentalized world. A successful managing director in an investment bank may only have nine or ten years of working experience; in most cases, this would be inconceivable in an industrial company. To put things in perspective, Goldman Sachs announced in 2010 the appointment of 321 new managing directors and 110 partners across the whole firm,[23] in addition to its already many existing managing directors, the list of which, now no longer available on its website, and set out in several columns, covered a number of pages.

It should be noted that the first or second quarter of the year often sees a significant turnover among investment banking staff as many employees join competitors following the payment of annual bonuses. This is true in particular for research analysts but more generally applies across the board; it has continued despite the new remuneration policies introduced after the recent credit crunch and sub-prime debacle in the US, involving increased fixed salaries and deferred payments for the variable component of compensation.

Table 2 summarizes the levels for career progression for investment bankers, as well as equivalents between investment banking titles.

1.7. The IPO banking team

Investment banks appointed in a leading role will normally give issuers a little bound book which includes a list of working parties at the outset of an IPO. For each of the banks involved, this will often include dozens of names spread out across a variety of teams, demonstrating the extent of the commitment made by the firm towards the execution of the offering. Many of the investment bankers listed will, however, have a very defined and punctual role in the transaction. Some of them, and many others not listed in the list of working parties, the issuing company will actually never see. In fact, the investment banking team which will remain dedicated to the IPO throughout the deal will probably be fairly light, even in the case of a very large offer or privatization.

1.7.1. Senior management

Starting with investment bankers within the Chinese wall, there will often be one or two very senior names, perhaps the chairman or chief executive officer of the bank, or the global or regional head of investment banking, under a "senior management" heading. These will invariably hardly ever get involved in the transaction. They may appear briefly at the pitching or at other crucial stages, and may perhaps show up at a roadshow presentation and at the closing dinner.

Thereafter	President (of region, country, team or department) Chairman (of region, country, team or department) Vice-chairman (of region, country, team or department)
After 1 - 3 years	Partner managing director Senior managing director Executive director
After 1 - 3 years	Managing director Division director
After 1 - 3 years	Executive director
After 1 - 3 years	Director Senior vice-president
After 2 - 4 years	Associate director Vice-president Senior manager ← Optional MBA Manager Associate manager Senior associate Associate
After 1 - 3 years	Senior analyst
Entry level	Graduate trainee Business analyst (BA) Analyst

Table 2
Career progression and equivalents between investment banking business titles

1.7.2. The core execution team

Sometimes a core or dedicated transaction team will be highlighted. It will probably include a managing director (although managing directors in investment banks are primarily dedicated to the origination of new mandates and to business development) or an executive director, together with a mid-level and a junior executive. They will either be generalist or execution bankers, sometimes with a dedicated country, industry sector or product (in this case, an ECM) specialization. Some investment banks, such as UBS, Morgan Stanley or Bank of America Merrill Lynch, actually have dedicated teams (often known as equity corporate finance teams), specializing in the overall execution of IPOs, and of equity offerings or capital markets transactions generally, and who remain involved from start to finish. Sometimes, such a team will have a particular bias towards work on transaction documentation and a different name, for example, "special execution" at Goldman Sachs. Wider country teams, with local language capabilities, or industry sector teams, with a particular expertise on how to approach the valuation of the business, may also be involved either throughout the deal or appear from time to time during the execution of the transaction.

1.7.3. The ECM team

Members of the ECM team will be involved at key stages in the transaction. ECM teams are generally primarily responsible for the origination of ECM business, which includes IPOs, primary and secondary equity offerings, block trades, convertible and exchangeable bond offerings, REITs and infrastructure funds, as well as for the later stages of the execution of such transactions. Depending on how the bank is set up, they will often leave the day-to-day management of the transaction and documentation to a dedicated IPO or equity corporate finance investment banking team, but will gradually become more involved as the transaction progresses towards the marketing stage, when contact with investors is initiated, and until the start of trading and beyond. Crucially, they will be responsible for targeting and often, in coordination with the equity syndicate, contacting institutional investors in a pre-IPO fund raising or cornerstone investor round. They will also liaise with the equity sales teams around the world to ensure wider contacts are established with investors at the appropriate time and that feedback is obtained from them, and acted upon. They will be instrumental in managing the pre-marketing or investor education and the order-gathering, also called "price discovery", or bookbuilding processes, as well as for the pricing, allocation and stabilization of the offering. Because of this hybrid role, ECM teams, while technically within the Chinese wall, are often set up as joint ventures for cost and revenue purposes between both the banking and markets side of investment banks.

1.7.4. The equity syndicate desk

Key team members within the ECM team are those on the equity syndicate desk (naturally, with a dedicated local or regional and global head), whose role is to liaise with the equity sales teams around the world, as well as with other investment banks to ensure coordination. They are generally not involved in the origination of new ECM business, and the issuing company will probably

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not see much of them until the later stages of the offering. Another important role of the syndicate desk (or team) is to coordinate investor education and the building of the investor book of demand. In addition, they will often be tasked with sounding a select group of investors about their interest and views on pricing, prior to the launch of follow-on ECM transactions. The syndicate team is sometimes actually physically located within the markets side of the bank, even though it is within the Chinese wall for compliance purposes. It will therefore often sit on the trading floor, but within a dedicated enclave, with access physically closed to salespeople and traders. Increasingly, many investment banks, especially US houses, have now formally moved this function to their equities departments.

1.7.5. The in-house roadshow coordinators

Most of the larger investment banks will also have one or more dedicated roadshow coordinators, generally either part of, or working closely with, the ECM team and the equity syndicate desk in particular. Their role is to take charge of the logistics associated with management roadshows, in particular travel arrangements and the hiring of venues for group presentations, for new issues, or as part of investor conferences organized by the bank. For smaller transactions, they will often coordinate the entire roadshow themselves, but on more complex offerings, or for offerings led by several investment banks, a third-party consultant will sometimes be appointed. In such a case, their role will be to liaise with such consultant to ensure that the meetings arranged by their bank are correctly reflected in the schedule.

1.7.6. The legal and compliance teams

Also within the Chinese wall is a legal team, which is involved in the negotiation of the various engagement letters and legal agreements. Legal teams within investment banks are often part of larger compliance departments, which, aside from liaising with regulators and other authorities, also look closely at the relationship between both sides of the Chinese wall. In an IPO in particular, they will be in charge of establishing contact with, and for liaising between, the ECM team and the research analysts. At many houses, investment bankers cannot even speak to research analysts unless a legal or compliance officer is also in attendance.

1.7.7. The research analysts

In most IPOs, other than in the US, Canada and Japan, where research distribution is prohibited, even for offerings by issuers from other countries, "pre-deal" research is published on the company to be floated, so as to present institutional investors with a synopsis on the company that is more "user friendly" than the prospectus. Research analysts, who are outside of the Chinese wall for compliance purposes, are also responsible for "pre-marketing", also called "investor education"—that is, traveling around the world to meet with institutions to discuss the merits of the issuer, following the publication of their pre-deal research reports. In smaller IPOs, there will generally only be one research analyst involved from any investment bank. But in larger transactions, such as privatizations, or in IPOs of companies that have a business encompassing several distinct areas, such as conglomerates, more than one research analyst may be involved in the offering process. Sometimes, both a research analyst with a country focus, and another with an industry sector focus, are appointed.

1.7.8. The equity sales teams

Also on the "markets" side are equity salespeople. These can form a fairly large, global group, generally based where the institutional investors they serve are located, or organized according to the nature of such institutions. For example, some salespeople may only have hedge funds as clients; others may have sovereign wealth funds. To ensure coordination, a "deal captain" is generally appointed for each IPO from within the senior salespeople to liaise with the ECM team. Sometimes, the deal captain changes from deal to deal to enable several executives to gain experience in such a role. Some investment banks also have one or more salespeople particularly dedicated to ECM transactions, who may be permanent insiders for compliance purposes.

1.7.9. Other areas

Banks that have a wealth management or private banking arm are often systematically contacted, at arm's length, by the bank's (or indeed other banks') ECM team(s) to generate high net-worth investor demand for IPOs.

As outlined in Section 1.5.3, corporate communications departments within investment banks are sometimes involved in IPOs, most particularly in the case of particularly high-profile or "sensitive" transactions, such as privatizations. They will also usually be involved after the deal to help increase the lead bank's profile in the media and win further IPO and ECM business, and also to win coveted industry awards granted by financial magazines.

Lastly, and something generally rarely seen by the issuing corporate, will be back office teams, in charge of the administration and settlement of trades for the shares allocated to investors under the IPO and located outside of the Chinese wall. This can be a complicated and extensive exercise, involving large amounts of money and stock, tight deadlines and sometimes unfamiliar procedures, since the company will, up to that point, never have been traded on a stock exchange.

1.8. Bank roles and the pecking order

There is a significant amount of confusion among the public, the media and even the investor community about the various roles that an investment bank can have in an IPO. Accordingly, it is worth clarifying here who does what, and the implications, for a given investment bank, of being appointed to a particular role.

1.8.1. Deal sponsors

In most IPOs, one or more banks are responsible for liaising with the regulator or stock exchange and for "sponsoring" the corporate on its listing. This role, which probably originated in the UK and which is common in those countries that broadly follow the same execution model as the UK for IPOs (such as Germany, Hong Kong or Singapore), is a fairly administrative one and largely involves helping with the drafting of the prospectus and the negotiation of its contents with the regulator or exchange. The terminology varies from market to market—"sponsor" in Hong Kong, "issue manager" in Singapore or "nominated adviser" (Nomad for short) for the Alternative Investment Market (AIM) in London. The main requirement is that the bank has experience of, and is qualified, to undertake this role. This generally involves a recent history of past IPOs where the bank has acted in this capacity and a minimum number of qualified personnel with the requisite experience, for example, known to be qualified as principals in Hong Kong. In mainland China, any lead broker underwriting an IPO must have at least

Philippe Espinasse. IPO.
Hong Kong, HKG: Hong Kong University Press, 2011. p 33.
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two executives acting as "sponsors" within the firm, each of whom must sit and pass a test on underwriting regulations. Such executives cannot work on more than two IPOs simultaneously. The sponsor should also be independent from the issuer, and confirmation to that effect is generally required to be made to the exchange. This role does not involve marketing or selling shares in the IPO.

A sponsor (or equivalent) can be just that, and some boutique investment banks with no research or securities distribution capabilities do act, and get remunerated for acting, solely in a sponsor capacity. In some, rarer, cases, accounting firms, lawyers or consultants may even act in such a role. Some banks are perfectly qualified to sell an IPO on a global basis to investors. But because they are perhaps new to a particular market, or have not recently been involved in stock exchange listings in a particular jurisdiction, they may not necessarily be qualified to act as a sponsor, or at the very least to act as a sponsor in a sole capacity. Accordingly, a separate sponsor, or indeed another house as a joint sponsor, may perhaps need to be appointed alongside the lead bank. More often than not, however, the lead bank appointed to market and distribute the IPO will also act as the sponsor. Sometimes, several lead banks may be appointed in a lead role, with only one or two of them acting as sponsor.

1.8.2. Global coordinators

Next is the role of global coordinator. The role and title were first coined in the UK in the 1990s. Again, this is often combined with the role of sponsor. More than one bank can act in this capacity, as joint global coordinators (JGCs), generally on larger IPOs. Sometimes, but more rarely, banks can also be appointed in a co-global coordinator capacity, although such term might be perceived, unlike a joint role, as not being on equal footing. The responsibilities of a global coordinator are made clear in the title—this is a coordination role, tasked with helping to bring together the various parties involved in the transaction. Almost systematically, a global coordinator will also be a bookrunner and a lead manager, although not necessarily the other way around, which I will discuss below. A global coordinator is also entitled to an extra share of the fees or "praecipium" (generally 0.25% or 0.50%), deducted from the gross fees (or, more commonly, part of the gross fees) payable by the issuer and/or selling shareholders.

Philippe Espinasse. IPO.
Hong Kong, HKG: Hong Kong University Press, 2011. p 34.
http://site.ebrary.com/lib/ttul/Doc?id=10506549&ppg=55

In practice, the role of global coordinator is less meaningful these days as syndicate structures have become streamlined. Appointing one or more JGCs made a lot of sense when a large number of banks were selected to join a syndicate for the underwriting of an IPO, in particular when several sub-syndicates were set up to distribute regional tranches, as was the case in the 1990s. Nowadays, a single syndicate is generally appointed to distribute most IPOs, and banks are free to sell stock pretty much globally, subject obviously to the licences they may hold. In addition, the average number of banks appointed in a syndicate has now been markedly reduced, generally to a single-digit number.

This system was devised for the very first time for the £5.4 billion follow-on privatization of British Telecom in 1993 (BT3), which was led by S.G.Warburg, with a total of 11 global managers appointed from around the world to distribute the offering globally, breaking away from the previous system of using ring-fenced, regional syndicates.[24] A good example of the use of regional tranches is the US$1 billion IPO of Spanish bank Argentaria, now part of Banco Bilbao Vizcaya Argentaria or BBVA, also in 1993, which included a dual listing in Spain and on the NYSE, with a Spanish retail and institutional tranche for 60.7% led by Argentaria's investment banking arm, Argentaria Bolsa; a US tranche for 14.3% led by Morgan Stanley; a UK and Ireland tranche for 12.5% jointly led by S.G.Warburg and Banco Santander; a continental European tranche for 8.9% led by UBS; and a Rest of the World tranche for 3.6% led by Merrill Lynch, with many of the above banks also acting in more junior roles in other tranches in the IPO, in addition to the one for which they had been appointed as bookrunner. For example, S.G.Warburg also acted as co-lead manager in the continental European tranche, while UBS had a similar role in the UK tranche.[25]

Regional syndicates continued to be used until well after the mid-1990s, most particularly in privatizations, but they have now completely disappeared, with the exception of tranches for Japanese public offerings without listing (POWLs), which I will discuss in Section 2.14.5.

1.8.3. Bookrunners

Most important is the role of bookrunner. Again, there can be more than one bank appointed in such capacity, as joint or, more rarely, as more junior, co-bookrunners. A bookrunner can also be (and often is) a sponsor, global coordinator and lead manager. However, not all sponsors or lead managers

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Hong Kong, HKG: Hong Kong University Press, 2011. p 35.
http://site.ebrary.com/lib/ttul/Doc?id=10506549&ppg=56

manage to also be appointed as a bookrunner. This is considered the key role in any IPO, as it involves controlling the book of demand, that is, maintaining the list of orders placed by institutional investors in the IPO, and, most importantly, deciding on the allocations of stock to such investors. While, in theory, allocations should be made in an independent fashion, and having regard to the perceived quality of each investor (for example, taking into account whether an investor has a long-term investment horizon), every investment bank is keen to allocate more stock to its best institutional investor clients. Being a bookrunner ensures this and, although not necessarily willingly, enables banks to allocate sizeable amounts of stock to those investors that effectively pay them significant commissions in the secondary market. Investors will therefore almost invariably place orders with a bookrunner, even more so in a "hot" deal which is heavily oversubscribed and which, therefore, is likely to see both demand heavily scaled back through the allocation process and an increase in the share price when the stock starts trading.

Allocations can lead to considerable negotiation (and very late nights!) when various bookrunners are appointed on the same IPO, each bank being obviously keen to favour its own investors that have placed orders in the book of demand. Banks at the bookrunner level will often have written arrangements in place to govern how they will work with each other on a particular transaction. Such memoranda of understanding (MoUs) or "rules of engagement" will generally cover their respective roles, economics, appearance, entitlement to investor meetings, hosting arrangements for roadshows, bookbuilding, pricing, allocation and stabilization issues, as well any advertising arrangements post-IPO. They will be superseded by the sale and purchase, or underwriting, agreement, once executed.

Depending on the size of the IPO, it often makes sense for an issuer to appoint more than one lead bank as JGCs and joint bookrunners. The amount of fees paid remains the same irrespective of how many banks are ultimately appointed in such roles and it is also useful to create an element of competitiveness, both for corporate finance execution and for marketing, among the houses tasked with leading the offering. At the same time, appropriately motivating the brokers responsible for leading the transaction is also an important consideration, and issuers should avoid going overboard. Some governments did so in early privatization IPOs in South East Asia, when six, and in some cases, eight bookrunners were signed up to manage

Philippe Espinasse. IPO.
Hong Kong, HKG: Hong Kong University Press, 2011. p 36.
http://site.ebrary.com/lib/ttul/Doc?id=10506549&ppg=57

a transaction, resulting in much posturing, unnecessary arguing, diluted fees and, ultimately, a loss of motivation and efficiency. Conversely, enough houses should obviously be appointed in a lead role for multi-billion dollar IPOs, such as those for the top commercial banks from mainland China. The leading Asian insurer AIA appointed four JGCs and joint bookrunners, and a further seven additional bookrunners in a more junior capacity in its IPO (estimated at the time to total US$15 billion, and which ultimately reached US$20.4 billion after exercise of a 20% upsize option, pricing, and exercise in full of the over-allotment option) in October 2010.[26] In such a case, the bookrunners not at the global coordinator level are not really expected to work actively on the execution of the transaction beyond the actual marketing phase of the deal.

1.8.4. Lead managers

Below the role of bookrunner is that of lead manager. Again, a lead manager is often also a bookrunner, and sometimes also a global coordinator and sponsor, but not always. Lead managers may also be entitled to a praecipium deducted from the gross fees (or, usually, part of the gross fees), as are global coordinators. When a lead manager is also a bookrunner, there is not too much to distinguish its particular role. When it is not, then it simply means that it is slightly higher in the pecking order than more junior banks in the syndicate, and that it is usually entitled to higher fees. In effect, a lead manager without a bookrunner title is just a glorified senior underwriter. It can also be included in lead manager league tables, although what really matters, as mentioned above, is to be appointed as a bookrunner. If not a bookrunner, a lead manager will probably find it difficult to effectively sell shares in an IPO to institutional investors for the reasons outlined earlier.

1.8.5. Junior syndicate members

Moving down the syndicate ladder, one or more banks, depending on the size of the IPO, may be appointed as co-lead managers. This is a junior role where banks are not generally expected to contribute much to the sale of the securities on offer. Their responsibility centres more on the publication, where allowed, of pre-deal research—which is also carried out by banks appointed in all of the above marketing roles—and, to some extent, on conducting investor education on the back of such pre-deal research. Accordingly, the main criterion for appointing co-lead managers should be their respective capabilities in equity research and, most particularly, in the country and industry sector pertaining to the issuer. This can often be ascertained by looking at annual independent investor surveys ranking research analysts, which I will discuss in Section 3.1. It can also be the case that investment banks unsuccessful in being appointed for the top roles after pitching are given a co-lead ticket by way of compensation, although not all the bulge-bracket banks are willing to take on junior roles. Junior syndicate members typically do not participate in due diligence, (although a dedicated meeting might, on occasion, be arranged specially for them, see Section 2.5.4), nor actively in the negotiations for underwriting arrangements.

Co-lead managers may also sometimes be among the relationship banks of the issuer and therefore find their way in the syndicate as a result of, for example, their corporate banking or lending activities. Nowadays, co-lead managers are most of the time not paid on the basis of the amount of stock they underwrite and sell, but more by way of a fixed sum for contributing to publishing pre-deal research on a company. This amount varies from region to region, from deal to deal and from bank to bank and can be anywhere from US$150,000 to US$1 million equivalent per co-lead manager for a given transaction. Generally, a bank acting in such a role will have a threshold in dollar terms for these fixed fees, below which it will not participate in the underwriting syndicate. Sometimes, senior co-lead managers can be appointed above the co-lead manager level. Their role is similar but they are usually given a slightly higher underwriting amount or fees in the transaction, normally for conducting more pre-marketing meetings.

The most junior level in a syndicate is that of co-manager, in cases where banks are not expected to contribute to research (and even less to sales efforts) and often paid a token amount for putting their name to the deal. Relationship banks of the issuer, obviously not among its main bank relationships, will sometimes be appointed to this role. Nowadays, few banks are actually appointed in this capacity given the lack of expected (and actual) contribution from co-managers.

Rather confusingly, "co-manager" is also a generic term used mainly in the US for banks not at the bookrunner or lead manager level. In Singapore, and in some other markets such as in the UK, junior syndicate members such as co-lead managers and co-managers are often called "sub-underwriters" instead. This is partly because the term "lead" in "co-lead manager" may imply additional responsibilities and liabilities, for example under Singapore

Philippe Espinasse. IPO.
Hong Kong, HKG: Hong Kong University Press, 2011. p 38.
http://site.ebrary.com/lib/ttul/Doc?id=10506549&ppg=59

	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	Bank G	Bank H
Sponsor	✓							
Global coordinators	✓	✓						
Bookrunners	✓	✓	✓					
Lead managers	✓	✓	✓	✓				
Senior co-lead managers					✓			
Co-lead managers						✓	✓	
Co-manager								✓

Table 3
An IPO syndicate with a sole sponsor, two JGCs, three joint bookrunners and four lead managers

law, which is often why junior syndicate members there prefer to use another title, and also not to appear on the cover of the prospectus.

In the US only, banks can also be appointed to underwrite an IPO as major bracket underwriters, sub-major bracket underwriters or simply as underwriters depending on how much they each underwrite. Other banks may be appointed as part of a selling group (or as placing agents) and are paid the selling concession on orders they bring in (typically from retail investors), but not management or underwriting commissions.

Table 3 illustrates how a syndicate of eight banks may be organized in a (relatively large), international (non-US) IPO. Some banks, and, in this example, probably too many, appointed in the lead roles combine several responsibilities, while a few others have a simple, well-defined junior position in the syndicate. Further examples are provided in the case studies set out in Appendix 1.

Obviously, league tables can be drawn up for each (or a combination) of these roles. Investment banks have long mastered the art of "cutting" league tables across ECM roles, regions, industry sectors, types of ECM transactions and timeframes to ensure that they appear in a favourable light or lead position. Junior investment bankers in ECM departments spend much of the first years of their careers devising such league tables for inclusion in pitching materials.

1.8.6. Receiving banks

In addition to banks selling to institutional investors, in most jurisdictions, commercial banks with retail investor clients also need to be appointed as receiving banks. This is because in some markets retail investor demand can be very high, for example in Japan, Australia or Hong Kong. More generally, it is because a minimum spread of shareholders is compulsory under the listing rules and a retail offering is the only practical way to attain the number of 500 (in Singapore), 1,000 (in Hong Kong, under certain circumstances, although this might be further reduced to 300 for some companies under a proposal that was being discussed at the time of writing) or 2,200 (for NASDAQ in the US or in Tokyo) shareholders required by the stock exchange for listing. It should be noted, however, that not all stock exchanges require such a spread of shareholders to be achieved—sometimes a minimum free float expressed as a percentage of capital is the only requirement (see Appendix 8 for initial listing requirements for a variety of major stock exchanges around the world).

1.8.7. Independent advisers

Sometimes, issuers may appoint an independent adviser in an IPO advisory capacity to help them navigate this complex process, and to "keep the lead banks honest". ABN AMRO Rothschild, the joint venture between the Dutch bank and the Franco-British investment bank used to specialize, in addition to some underwriting roles, in such assignments (for privatizations in particular) prior to the acquisition of ABN AMRO by The Royal Bank of Scotland in 2007. Firms such as NM Rothschild (following the dissolution of the joint venture with ABN AMRO), Lilja & Co or STJ Advisors are also well known for acting in this capacity. Such advisers are often boutique firms with no research, distribution or trading capabilities—and therefore no conflicts of interest. Or they can be fully fledged investment banks not otherwise involved in the IPO, or even (more rarely) consultants. Their role may or may not be disclosed to the lead banks or to the public at large.

When an independent adviser is appointed to help on an IPO, it is a good idea to make the appointment at the outset of the transaction and, in any event, prior to the lead banks themselves being appointed. Such an adviser

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may be able to save an issuer substantial amounts of money by helping on the request for proposal (RFP) and negotiation processes for the fee and expenses payable to the lead banks, as well as to other advisers.

1.8.8. Appearance

Appearance is an important issue for investment banks, that is to say the way and order in which their names are listed on the cover of prospectuses or in "tombstones" recording the "bare bone" facts of a deal or press announcements. Appearance can be subject to much discussion and negotiation. Traditionally, the bank with the most senior role always appears in the top left position. When several lead banks are on an equal footing, alphabetical order will generally be used and this may even be mentioned underneath the names so that no confusion can exist in the minds of investors or the public. Banks may also appear, for example, in alphabetical order for global coordinators, as well as in reverse alphabetical order for bookrunners, again, this being made clear below the names. If several banks are listed on the same line (or in a "cascading" fashion) but do not appear in alphabetical order, then the bank that appears "out of order" in the top left generally has the most senior role in the line-up. This may be because it underwrites a larger amount of stock than do the other banks. It may also be because it is entitled to a larger share of the fees, which, in practical terms, generally amounts to the same. It has now become uncommon for the names of junior syndicate members to appear on the cover of prospectuses. For banks appointed in the more junior roles in an IPO, involvement will remain limited to the equity syndicate desk, research analyst and, perhaps, a handful of sales people to conduct pre-marketing calls.

Although not necessarily part of the syndicate for an IPO per se, companies listed in the UK must appoint financial advisers and brokers on a retainer basis. This is the case whether companies are admitted to list on the main board of the exchange or on the secondary market (AIM). Such financial advisers and brokers are often (but not always) appointed as global coordinators and bookrunners for subsequent equity transactions.

Generally, global coordinators, bookrunners and lead managers are appointed at the outset of a transaction. However, some of these roles may be decided later on, for example just prior to the bookbuilding stage, to reward those banks that have pulled their weight at the preparation or corporate finance stage, completed a particularly extensive pre-marketing exercise, or brought on board cornerstone investors. In April 2010, the financial group from mainland China, Agricultural Bank of China, appointed (in that order) Chinese investment bank CICC, Goldman Sachs, Morgan Stanley, Deutsche Bank, JPMorgan, Macquarie Capital and its own investment banking arm, ABC International as joint bookrunners of its US$12 billion H share IPO in Hong Kong. At the end of June 2010, following the completion of investor education and the naming of cornerstone investors, it announced that CICC, Goldman Sachs, Morgan Stanley and ABC International (in that order) had also been named as global coordinators for the transaction, entitling them to a higher proportion of the reported US$200 million in fees payable on the offering (estimated at the time of launch). In the event, the fees for the IPO were slashed by about 30% upon closing to a reported US$142 million as it was said that the issuer took the view that a number of discussions with, and the successful appointment of, certain cornerstone investors had taken place without much involvement from the lead banks.[27]

1.9. Pitching for the lead roles

Often, a company that is planning to conduct an IPO will have gone public with its plans, or will have been approached by one or more investment banks pitching to lead the transaction. The banks will have explained the process in some level of detail, attempted to put a value on the company using a variety of methodologies, and also presented their credentials to convince the issuer that they are best placed to be appointed in the most senior roles in the offering.

There is much creativity on the part of investment banks when it comes to pitching for new business. Management are wined and dined, invited to conferences hosted by the banks, or given the opportunity to meet senior strategists who will give their views on where the markets are heading. Relationships will be built at all levels throughout the company—junior bankers will liaise with their counterparts, while the more senior managing directors will focus on chairmen, CEOs and CFOs. In the past, investment banks have even commissioned short films or videos to illustrate their enthusiasm for working on a particular transaction. Short clips or letters with testimonials of satisfied CEOs are also not uncommon, and can be effective in conveying a bank's credentials. Some pitching teams for IPOs of textile retailers have on occasion even turned up fully clad in clothing produced by the issuer!

Before the late 1990s and early 2000s and the dot com craze, much use was made of research analysts in pitching. Research analysts specialize in stocks from a particular country or industry sector and talk daily to institutional investors so they are, in many ways, best placed to convey the views of the market. However, this also creates conflicts of interest between the banking and markets side of investment banking firms (see Section 1.5.2. above). Nowadays, most research analysts never participate in pitches. And their assessment of IPO candidates through pre-IPO research is done completely independently. ECM teams and investment bankers from within the Chinese wall no longer can (in theory) influence research analysts when it comes to writing their reports. Research teams now need to come to their views on their own, and to give a factual and fair assessment of the businesses on which they write reports. In addition, no price targets or recommendations (such as "buy" or "accumulate") can be included in pre-deal research reports.

1.9.1. Key attributes of a lead bank

Even though research analysts are no longer involved in drumming up new business, appointing a lead investment bank (or banks) with strong research capabilities is still an important consideration, since research analysts remain involved in a major way in the new issue process through the publication (where allowed) of pre-deal reports and investor education. Another important criterion in appointing lead banks is obviously a track record of successfully conducting similar transactions, both in terms of industry sector and geographical location. Strong capabilities in selling and trading similar securities across a number of jurisdictions is also a must. A lead bank should be able to provide support to the company after the IPO, through research, trading and corporate broking activities, for example through the organization of thematic investor conferences.

Lastly, investment banking is, at the end of the day, a people's business and the issuer should work with bankers it can trust and with whom it has developed a relationship based on mutual understanding. Importantly, it should be noted that the bankers pitching for new business may not necessarily be the ones working on a particular deal, so it is also important for a listing candidate to identify the individuals who will primarily be responsible for working on its IPO, and who will lead the execution of the deal. It can also

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pay to talk to past issuers to get their views on how the process was managed, how they would perhaps do things differently a second time around, and which firm(s) really did a good job at the end of the day.

The number of banks that are appointed in a lead role, as well as other houses to be chosen as part of a syndicate, depends largely on the size of the transaction. In a smaller deal, one lead bank with perhaps a couple of co-lead managers to provide research coverage will often suffice. In a multi-billion dollar IPO, extensive coverage of all segments of the institutional and retail investor communities will be required. In such a case, appointing several banks in the lead roles will ensure broad marketing as well as a healthy level of competition in their marketing efforts. In some markets, a popular combination for transactions of an average size is the appointment of two lead banks, an international house as well as a domestic bookrunner. In this case, often both houses will have complementary domestic as well as international distribution capabilities.

1.9.2. Requests for proposal

A practical way for a company that is planning to go public to control the pitching process, perhaps with the help of an independent adviser, is to issue a request for proposal (RFP) to a number of banks, setting out issues on which their views are sought. This can help compare across a significant spectrum of banks on a fair basis, and select one or more lead banks for the transaction. Investment banks that decide to reply to the RFP are not being paid for doing so, and this can also provide the company with a wealth of information in preparation for the flotation. RFPs can also specify conditions laid out by the company for participating in the IPO, such as an expected contribution on the part of the lead banks to expenses associated with the offering. For example, investment banks may not be reimbursed for their legal or out-of-pocket expenses, or these may be subject to a cap.

Investment banks have extensive graphics and presentations departments and are used to responding to RFPs at very short notice. Often responses will be sought within a week, perhaps two at most. RFPs can be issued in many languages—it is not uncommon for them to be issued in Chinese or Korean to bankers working in the Asia-Pacific time zone. Agricultural Bank of China reportedly sent an extensive RFP of 35 pages in length to a group of more than 20 banks to pitch for one of the lead roles in its US$12 billion H share IPO in April 2010; this was in addition to another group, reportedly of ten banks, to lead the A share portion of its global offering, giving them barely a week to respond over an Easter bank holiday weekend.[28] Many investment banks will actually re-use parts of earlier or recent pitches, given their high level of ECM activity and the similarity between most RFPs. Some of the larger investment banks will even make regular use of outsourcing firms, often physically located in India, for the most commonly used parts of pitches or to help compile statistics. This can include trading multiples for comparable companies, or brief descriptions of potential acquisition targets in the case of M&A transactions. It also frees up junior personnel from working on the most "mechanical" aspects of pitches to concentrate on more value-added areas.

It is common for RFPs to be split into two parts: a written presentation and, subsequently, an oral presentation for those banks shortlisted after the initial stage. The written submission for an IPO will generally include, in a specified format, a maximum number of pages including, or excluding, appendices, the language to be used, or a minimum font size, and some or all of the following:

- an assessment of current and forecast market conditions, on a global basis, as well as for the country and industry sectors relevant to the company;
- an assessment of current and forecast primary equity market conditions, including a pipeline of disclosable new issues, perhaps highlighting comparable or similar offerings;
- a summary of the equity story and market positioning for the issuer as it would be marketed by the bank, together with possible concerns that may be raised by investors as well as potential mitigating factors suggested by the investment bank;
- an attempt at valuing the business, explaining the various methodologies used, and those likely to be favoured by investors. The issuer may sometimes include selected forecast financials in the RFP so that all the banks can attempt a valuation on a similar footing. This may also include specifying recommendations for the capital structure of the company upon IPO, perhaps including the use of a special dividend;
- a recommendation as to which stock exchange to list on, if not specified;
- a summary of the execution process, together with any anticipated execution issues, and the bank's ideas on how best to resolve these;
- the main issues that will be the subject of due diligence on the part of the investment banks and other relevant advisers;

- a list of documents that will be required for the transaction, together with suggestions for third-party advisers to be appointed in connection with the IPO;
- a proposed timetable for the transaction;
- details of the bank's proposed transaction leader and execution team;
- the proposed offer structure and marketing strategy for the IPO, including jurisdictions in which investors of various types will be targeted, and in how many tranches the global offering should be divided;
- a proposed structure (and, perhaps, names of potential participants) for the syndicate of banks that will lead the offering;
- the bank's recommended approach for research coverage for the company, together with details, coverage and rankings of its research analysts that would be assigned to research the company;
- a list of target investors, together with likely demand expected from such investors. This may also include identifying investors for a pre-IPO or cornerstone round, and may sometimes be split between bottom-up and top-down demand estimates;
- details of how price ranges were determined for recent IPOs led by the bank and of where such IPOs were ultimately priced relative to their price ranges;
- the use of price stabilization for the offering;
- proposed fees for the IPO and a schedule of likely expenses;
- details of any research, investor relations (including the hosting of investor conferences), and trading and market-making capabilities that may be provided by the bank to support the stock in the aftermarket; and
- credentials for the investment bank, perhaps including league tables in specified formats and for a given period of time; and, importantly, a track record of recent, relevant IPOs led in the jurisdiction considered, with their share price performance as set intervals, as well as in the industry sector of the issuer.

In addition, banks are also often asked to state that they would have no conflicts of interest with participating in the proposed IPO.

It is not uncommon for ECM pitches or responses to RFPs to run into hundreds of pages, particularly as extensive credentials designed to impress the prospective issuer are recycled from earlier presentations. RFPs and ECM pitches are invariably put together over long hours by the more junior investment bankers; much of their role in the first few years of their careers actually consists of drafting and writing such presentations, before they are given the opportunity to meet with corporates to execute transactions and, ultimately, participate in business development efforts by themselves pitching to potential clients.

1.9.3. Oral presentations

Oral presentations by a shortlist of houses generally follow the written submission and provide a forum for clarifying issues and identifying personnel from each investment bank primarily responsible for the running of the transaction. The most commonly adopted format is for a bank to make a 25–30-minute presentation, to be followed by a question-and-answer session for the same duration. Seeing the banks in sequence over a couple of days offers a good opportunity for immediate comparison between various houses.

It is usual to give a more junior role in the syndicate to at least some of the banks that are ultimately not selected for the lead roles in the offering, although some of the larger houses are often reluctant to take on co-lead tickets and prefer instead to focus all their efforts on winning and executing larger transactions.

1.10. Formally engaging investment banks

Investment banks are, most of the time, formally contracted through the signing of a formal engagement or mandate letter, in effect a relatively simple letter agreement. Each bank has its own format, so a neutral format must be drafted when more than one bank is appointed. Investment banks that are active in primary equity markets work with each other all the time, so their legal departments are well aware of each other's sensitivities or peculiarities. Initial drafts are generally provided to issuing clients by the investment banks themselves.

Mandate letters can be fairly detailed, and run over several pages. They cover the engagement of the investment bank for the duration of the transaction, until the signing of the underwriting and sale and purchase agreements following the pricing of the IPO. Several clauses, such as those dealing with confidentiality and indemnity, survive the termination of the engagement. Mandate letters record the roles in which each lead bank is appointed, the fees to be paid by the client and, often, how such fees are to be split among the banks, as well as arrangements regarding the reimbursement of expenses. Mandate letters also include clauses on access to management and to information pertaining to the company; confidentiality and the sharing of information between departments and subsidiaries of the bank; and record keeping. They also commonly include indemnity clauses. In addition, they make clear under what circumstances, and how, the mandate can be terminated, for all the banks involved, or perhaps for only one or some of them.

Mandates for IPOs are often granted on an exclusive basis, but this generally does not prevent issuers from adding other banks to the syndicate in a senior or similar role at a later stage. In some (more rare) cases, banks can be granted exclusivity or a right of first refusal on subsequent transactions for a period of time.

As IPO mandates can take time to negotiate, some banks have opted for a shorter format, with standard terms and conditions appended to the letter. This should obviously not preclude an issuer from negotiating the entire engagement letter, including the standard terms, which form an integral part of the engagement.

In some cases, no mandate letter is signed at the outset and, indeed, some investment banks actually do not like to sign engagement letters. There is simply an informal, sometimes vague, understanding about the terms of the engagement; this may not even include a final agreement on fees or the more senior roles in the syndicate until the last few weeks of the transaction. Some banks take the view that the best way to secure a mandate is to start working on it, and to negotiate details of the conditions of their appointment at a later stage. This is not uncommon in IPOs, especially with issuers from mainland China. In such a case, however, there is always a risk that the bank may end up footing the bill (or at the very least part of the bill) for expenses incurred by it and its own advisers in the event that the IPO is not completed.

1.11. How investment banks get paid

There are basically two ways investment banks get paid on an IPO.

First, gross fees are charged to the issuer and to any selling shareholders as a percentage of the issue size, and deducted from the proceeds realized in the IPO. Secondly, brokerage is often charged to investors as a percentage of the value of the stock allocated to each of them in the offering. Brokerage can, however, be optional in some transactions, whereas fees are always charged to issuers and sellers: on occasion these can be very low indeed for prestigious follow-on and/or privatization transactions where league table credit can be deemed as important as, if not more important than, actual deal revenues. Goldman Sachs reportedly quoted much lower fees than its rivals did when bidding for the mandate to lead the US$23.1 billion IPO of General Motors in the US in the summer of 2010.[29] Similarly, some government sell-downs in India (although not IPOs) have been conducted on commissions as low as 0.02%![30]

IPO fees charged to issuers vary from market to market and also depend on the size of the transaction. They have been gradually falling over the last few years in Europe (except on AIM in the UK, as well as on other "second boards", where they remain high due to the relatively smaller size of IPOs on these platforms) and across most of Asia to about 2.00% to 3.50% of issue proceeds. However, they still remain particularly high in the US, sometimes up to 6.50% or even 7.00%, although many issuers there do not reimburse banks for their legal and out-of-pocket expenses as a result of this. Examples of fees charged on IPOs across various markets around the world are included in the case studies set out in Appendix 1.

Brokerage on an IPO, when charged to investors, is generally in the range of 0.25% to 1.00%. On top of the gross fees, corporates are sometimes also charged a documentation or advisory fee, commonly in the order of several hundred thousand US dollars, or the equivalent in the currency of issue, by the bank acting as sponsor.

Negotiating fees is part of business life but, at the end of the day, one gets what one pays for. It may perhaps be preferable to pay slightly higher fees and to receive the full attention of a lead bank than for an issuer to squeeze commissions as much as possible and see its offering become just another IPO on the firm's mandate list. What should really matter more to both issuers and vendors is the amount of net proceeds they ultimately receive from an IPO rather than how much the banks effectively charge to lead and manage the process.

There are various ways fees can be structured, and they may also include an incentive element. For example, an issuer may be charged a base, fixed percentage of, say, 2.00% of gross proceeds, with an additional variable component amounting to a further 0.50%. This can be entirely discretionary, i.e. the issuer may decide at the time of pricing whether to pay the extra amount, and to which banks, depending on whether they have delivered on their claims or promises. It can also be paid according to previously agreed criteria. Generally, the main criterion will be the final offer price, with perhaps a ratchet with higher fees paid as the offer price increases. However, it can also be based on the level of over-subscription achieved in the global, institutional or retail offering, or it can depend on whether certain pre-identified investors have placed orders, or on any other criteria agreed between the issuer and the lead banks. One of the case studies described in Appendix 1 includes an example of an incentive fee.

While understanding gross fees charged to the issuer or brokerage is easy, the issue of how investment banks allocate IPO fees among each other is a rather complex matter, which requires explanation.

1.11.1. Components of the gross fees

Traditionally, gross fees for ECM transactions are split into three components: a management commission, an underwriting commission, and a selling concession. Historically, the split between such components has been 20/20/60. Management and underwriting commissions, which are effectively charged for dedicating the banks' resources to the transaction, as well as for underwriting the deal, are paid on fixed amounts underwritten by each bank. By contrast, the selling concession, which is charged for actually selling the offering to investors, is paid on variable amounts allocated to each bank, based on its final book of demand. Since the lion's share of the fees is paid on the basis of allocated demand, it is not difficult to understand why banks aspire to be appointed as a bookrunner in any ECM transaction.

In some cases, banks underwriting a transaction may pass on some of their underwriting exposure to other banks (or indeed, investors) by entering into an individual sub-underwriting agreement and by paying them a separate sub-underwriting fee. This is quite common in some jurisdictions, such as Australia.

I have mentioned earlier that global coordinators and lead managers are also sometimes paid extra fees in the form of a praecipium. This can be deducted either from the gross fees prior to any 20/20/60 split (in which case the praecipium obviously represents a higher amount) or, much more commonly, from the management commission only as a percentage of the 20% cut from the gross fees.

Traditionally, the management and underwriting commissions were available to account for unreimbursed expenses and stabilization losses. With the introduction of fixed or guaranteed economics for the more junior syndicate members, this is, in practice, generally no longer the case for co-lead and co-managers.

Table 4 illustrates how the various components of the fees are calculated. The amounts for the management and underwriting commissions per share are multiplied by the number of shares underwritten, whereas those for the selling concession (also on a per share basis) are multiplied by the number of shares allocated. To keep things simple, I have not included details of any praecipium in this example.

Offer price: US$1.80 per share
Total offering: 225,000,000 shares

Gross fees: 3.00%, equivalent to US$0.054 per share

- 20% management commission = US$0.0108 per share
- 20% underwriting commission = US$0.0108 per share
- 60% selling concession = US$0.0324 per share

Bank	Underwriting (shares)	Allocation (shares)	Management commission (US$)	Underwriting commission (US$)	Selling concession (US$)	Total commissions (US$)
A	150,000,000	200,000,000	1,620,000	1,620,000	6,480,000	9,720,000
B	50,000,000	20,000,000	540,000	540,000	648,000	1,728,000
C	25,000,000	5,000,000	270,000	270,000	162,000	702,000

Table 4
A simple worked example (without a praecipium) for the calculation of the various fee components

1.11.2. US market practice

The selling concession can also be the subject of further twists, especially under market practice prevailing in the US. Equity offerings in the US typically use what is called a pot system, whereby the bookrunner is the only

Offer price: US$1.80 per share
Total offering: 225,000,000 shares

Gross fees: 3.00%, equivalent to US$0.054 per share

- 20% management commission = US$0.0108 per share
- 20% underwriting commission = US$0.0108 per share
- 60% selling concession = US$0.0324 per share, of which 30% is fixed, based on underwriting amounts, and 70% jump ball

Bank	Underwriting (shares)	Designated jump ball sales credits (shares)	Management commission (US$)	Underwriting commission (US$)	Selling concession 30% fixed (US$)	Selling concession 70% jump ball (US$)	Total commissions (US$)
A	150,000,000	200,000,000	1,620,000	1,620,000	1,458,000	4,536,000	9,234,000
B	50,000,000	20,000,000	540,000	540,000	486,000	453,600	2,019,600
C	25,000,000	5,000,000	270,000	270,000	243,000	113,400	896,400

Table 5
The same worked example, using an institutional pot and jump ball fee system

member of the syndicate that can solicit orders from institutional investors. The system was devised to avoid the same investors receiving multiple calls from syndicate members to sell them shares in the same transaction. Investors can, however, choose to designate a portion of the selling concession to other members of the syndicate. How this works in practice is as follows. Generally, a proportion of the selling concession is shared on a fixed, guaranteed (or pre-agreed) basis among all the syndicate members, usually in proportion to underwriting amounts and irrespective of actual sales made. The remainder of the sales credit is "designated" or allocated to syndicate members by investors in what is called a jump ball system ("jump ball" is a basketball term). The split between the fixed and jump ball portions of the selling concession varies, but is usually around 30/70, although in practice, pretty much all of the jump ball portion gets paid to the bookrunner. In some transactions, the system can be 100% jump ball, which in theory appears more fair to all the banks in the syndicate in that it puts everyone on the same footing but invariably results in the banks below the bookrunner level receiving no or very few designations for their sales efforts.

The example in Table 5, using the same parameters as the example in Table 4, shows how fees would be allocated under a typical US pot system. In this case, the selling concession is split 30% as a fixed portion, payable on the number of shares underwritten, and 70% as a variable component, which is paid based on designations by investors. Total fees payable by the issuer remain the same under both systems.

1.11.3. Designations and split orders

For international equity offerings outside the US, market practice is somewhat different. Orders can in theory be placed by institutions with banks other than the bookrunner, although, as in the US, syndicate members not at the bookrunner level do not really have a fair shot at generating orders as investors are generally advised to place orders with the bookrunners in an effort to secure allocations. Sometimes designations of part of the selling concession (as in the US) are allowed, in which case, syndicate members are often given a period of up to 48 hours after the closing of the book to "chase" designations of sales credits from investors. In addition, split orders, that is, an investor placing more than one order with two or more banks, may (or, more rarely, may not) be allowed, depending on the rules that have been laid out by the lead banks in the transaction.

1.11.4. Fee caps

Both inside and outside the US, the bookrunners are sometimes capped as to the proportion of selling concession that they can receive. For example, the bookrunners may be capped at 75% or 80% of the selling concession, allowing the remaining 15% or 20% to be made available on a competitive basis exclusively for payment to the more junior syndicate members, so as to encourage their sales efforts.

1.11.5. Fees and re-allocation between tranches

When separate institutional and retail syndicates of banks are involved, the rules generally provide for the re-allocation of stock between the syndicates depending on investor demand generated in each tranche. As previously mentioned, sometimes this can be done by way of fixed claw-back triggers, such as in Hong Kong. Alternatively, this can be made at the discretion of the lead banks. When a claw-back (or a claw-forward, which is the reverse mechanism) happens, part of the fees may follow stock, and move from one tranche to the other, depending on local market practice or the provisions laid out in what is called an inter-syndicate agreement, which I will discuss in some detail later. For example, management and underwriting commissions may be paid to banks underwriting stock in the initial tranche, but the selling concession may "move across" to the banks in the other tranche if stock has been re-allocated in a claw-back (or claw-forward) mechanism.

1.11.6. Pre-agreed and guaranteed economics

Such complexities notwithstanding, it is now common practice for investment banks to pre-agree at the outset how the fees will be paid among themselves, which may even include brokerage charged to investors. When several banks are involved on the same footing, a straight equal split is generally the norm. Conversely, one or more banks may receive a higher proportion of the fees as decided by (or negotiated with) the issuer. Sometimes, banks are added in a senior role later in the transaction, with lower fees carved out for them. Most of the time, such pre-agreement on the split of gross fees does not, however, extend to how allocations of stock are made to investors. Accordingly, there remains an element of competitiveness to be able to reward a bank's institutional investor clients with stock, irrespective of how the bank is paid at the end of the day.

Philippe Espinasse. IPO.
Hong Kong, HKG: Hong Kong University Press, 2011. p 54.
http://site.ebrary.com/lib/ttul/Doc?id=10506549&ppg=75

A major part of the marketing that banks use to pitch for, and win, ECM mandates revolves around how they have "outsold" other houses appointed in the same role in previous transactions. Therefore, even though joint bookrunners may be paid the same, receiving a higher allocation based on one's order book remains an important outcome for investment banks on any ECM offering.

I mentioned earlier that co-lead managers, or co-managers or sub-underwriters, are now usually paid a fixed fee or "guaranteed economics" for publishing pre-deal research. Since they do not run the book of demand, they therefore generally do not contribute to selling efforts and do not receive allocations of stock. There are, however, ways through which the more junior members of a syndicate may be incentivized (perhaps beyond the pre-agreed economics) to contribute to the marketing of an IPO, above and beyond research. These can, for example, include:

- keeping the size of the overall syndicate small, so as to ensure meaningful underwriting amounts for all participating banks;
- structuring the fees to reward selling efforts, so that the majority of commissions are paid on actual shares placed with investors, rather than reward passive underwriting; this is generally the case in any event, but does not really work in practice given the constraints imposed by the bookrunner system;
- as mentioned above, capping the share of the bookrunners' selling concession to a certain level (perhaps 75% or 80%) so as to ensure that a meaningful proportion of the fee pool always remains available for the more junior members of the syndicate;
- mentioning the names of co-lead and co-managers on the cover of the prospectus to create more visibility for them with investors; and
- allowing global access to institutions, rather than ring-fencing sales efforts within a particular region, which is now also the norm for most IPOs.

1.11.7. IPO expenses

In addition to paid fees, investment banks are often reimbursed by issuers for their out-of-pocket expenses, which include travel, hotel, communications, printing etc., as well as for paying the fees of their own legal advisers. In the past, an estimate of such expenses was made and deducted from IPO proceeds, and the expense account finalized at a later stage. This is now very rarely the case, and expenses are charged by investment banks to issuers either at regular intervals throughout the transaction or, more commonly, in one go after the offering has been completed. In some cases, particularly for very prestigious, large or privatization mandates, expenses incurred by banks may not be reimbursed at all. In extreme cases—ECM offerings in South Korea are notorious for this—the investment banks are actually asked to contribute to part of the issuer's own expenses in order to participate in the transaction. For example, in the US$1 billion IPO of Shanda Games on NASDAQ in 2009 (a case study for which is included in Appendix 1), the underwriters had agreed to reimburse the issuer for up to an estimated US$6 million in expenses in connection with the IPO. This appears to be a particularly high number until one realizes that, in this particular transaction, the gross fees received by the underwriters were estimated in the prospectus to be US$65 million.[51]

In any event, it may often be a good idea for an issuer to cap the lead banks' out-of-pocket expenses, perhaps to a maximum of, say, US$50,000 or US$75,000, to prevent abuses. Expenses of banks below the level of bookrunner, which are usually not significant, are traditionally not reimbursed.

1.11.8. Trading fees

Lastly, and not strictly part of the IPO fees themselves, come the trading fees. Since volumes are often very high in the first few days or even weeks of trading for newly listed stocks, banks generally earn considerable trading fees from institutional investors buying and selling shares in companies that have just been the subject of an IPO. The bookrunner banks on the deal are obviously best placed to capture the lion's share of such trading business as they are aware of which institutions received allocations in the offering and may therefore potentially be interested in topping up (or, indeed, selling some of) their holdings in the aftermarket.