

Initial Public Offering – Finance Source of Stock Exchanges

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Abstract: Capital market offers a wide range of options for financing companies, which can be tailored to meet their exact needs. Thus, they have the opportunity of primary security sale (shares and bonds) on the stock exchange, which may take place through a tender, in which case the financial instruments issued by a company are underwritten at the date of issue, or through a secondary offer, in which case they are issued and offered for sale by the issuer. If the public sale offer focuses on shares and aims at transforming the issuing company into a public one, then it bears the name of IPO (Initial Public Offering). The present work aims for the evolution of IPO trends on the European market in the aftermath of the global crisis outbreak. The market of IPO carried out by BSE is also analyzed herewith.

Keywords: Initial Public Offering, Global capital markets, Bucharest Stock Exchange, Europe, Romania.

JEL Classification: G01, G15

1. Introduction

After the outbreak of the financial crisis, global capital markets also influenced in a negative way the Initial Public Offering (IPO) segment. From the standpoint of the development of the IPO at the level of the European capital markets, before the onset of the crisis, it can be seen that the volume of IPO is still significant, despite the problems that arose on the international markets in the second half of 2007. As shown in the graph no. 1, in comparison, the number of IPOs completed in 2007 was slightly lower than that recorded in 2006, respectively a volume of 813 IPOs in 2007, compared to 838 IPOs in 2006 and a reduced amount obtained by the issuers, 9% lower than that recorded in 2006, which is 87.849 million in 2006 to 80.367 million in 2007 (graph no. 3).

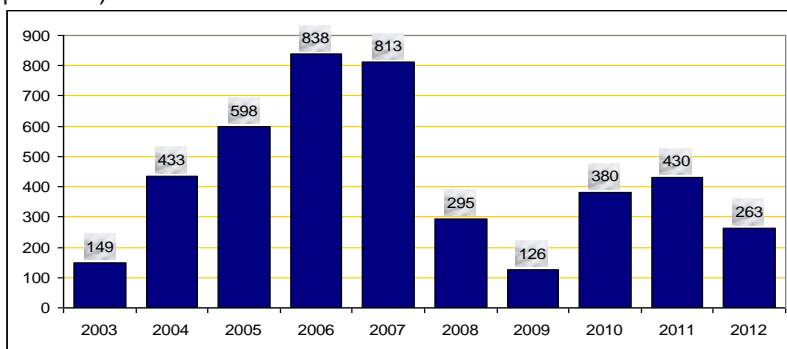


Fig. 1. Number of IPOs during 2003-2012 in Europe

Source: Author data processing after PricewaterhouseCoopers Annual Report "IPO Watch Europe" published between the years 2006-2012, available online at <http://www.pwc.pl/en/ipo-watch-europe/index.jhtml>, website accessed on 21.05. 2013

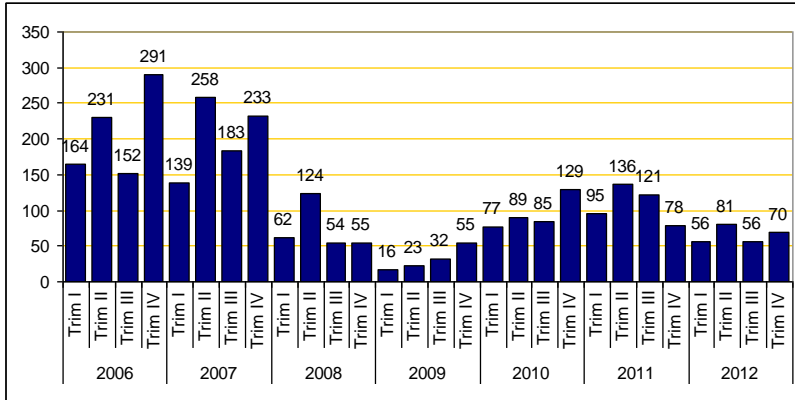


Fig. 2. Number of IPOs per trimesters during 2006-2012

Source: Author data processing after PricewaterhouseCoopers Annual Report "IPO Watch Europe" published between the years 2006-2012, available online at <http://www.pwc.pl/en/ipo-watch-europe/index.jhtml>, website accessed on 21.05. 2013

As reflected in the graph no. 2, in 2009, the first year after the start of the crisis, there were made the fewest Initial Public Offerings (126), a recovery being recorded in the fourth quarter, when he made a distinct improvement in volume and value compared to the first three quarters. After this year, most markets have benefited from an improvement in the economic conditions and the continuing growth in business confidence, a situation which has led Europe to host 380 IPOs in 2010, the massive rise compared to 126 IPOs undertaken in 2009. Also, in addition to the bigger number, the total amount of the bid went up nearly four times, from 7,112 euro in 2009 to 26,286 billion euro in 2010.

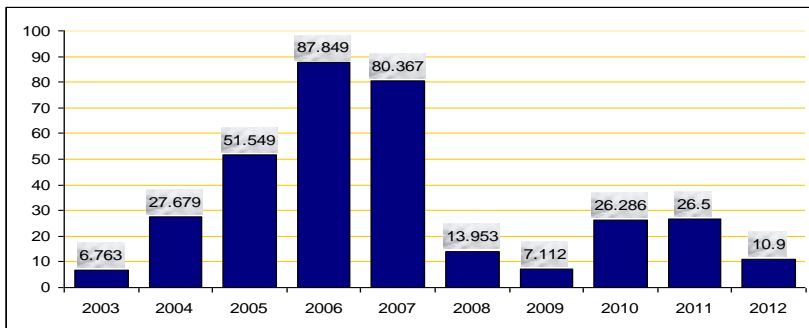


Fig. 3. Value of IPOs during 2003-2012 in Europe (billion Euros)

Source: Author data processing after PricewaterhouseCoopers Annual Report "IPO Watch Europe" published between the years 2006-2012, available online at <http://www.pwc.pl/en/ipo-watch-europe/index.jhtml>, website accessed on 21.05. 2013

As is evident from the data presented in the previous graphs, after 2008 - considered the year when the crisis sparked worldwide, IPO activity sites conducted on European stock exchanges continued to decline in 2009, largely as a result of the loss of confidence of investors at the global level and the economic crisis. Thus, the market suffered significant declines, both in value and in volume, compared to 2008, dropping 57% , which is quite substantially, in 2009 with, to 126 IPOs, compared to 295 in 2008, while the value of the total supply of IPOs decreased 49%, to 13,953 billion euro in 2008 from 7,112 billion euro in 2009.

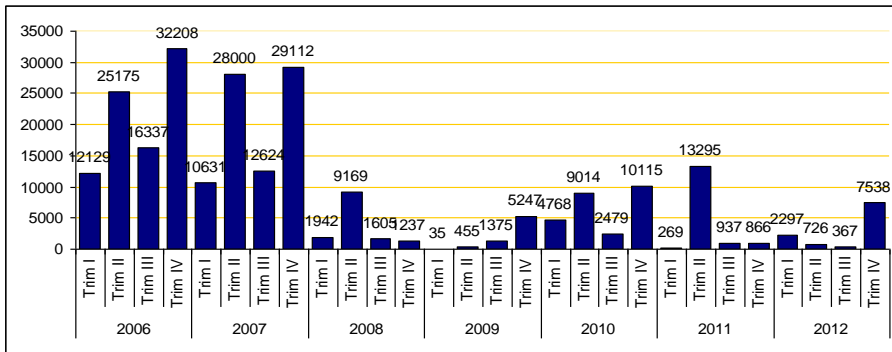


Fig. 4. Value of IPOs developed in Europe during 2006-2012 (billion Euros)

Source: Author data processing after PricewaterhouseCoopers Annual Report "IPO Watch Europe" published between the years 2006-2012, available online at <http://www.pwc.pl/en/ipo-watch-europe/index.jhtml>, website accessed on 21.05. 2013

Despite the difficult economic conditions in 2011, a total of 430 IPOs has registered throughout Europe, the value of 16.5 billion euro, an increase of 13% in volume and 1% in relation to the gains recorded in 2010. As shown in the graph no. 4, the beginning of the year was promising for European capital markets, but, on the other hand, the IPO market has been plagued by delays and postponements because of serious threats to the stability of the euro zone, Arab Spring and demotion of the U.S.A's credit rating by Standard and Poor. Other reasons for which the first half of the year 2012 has been marked by delays and cancellations of IPOs concern are: both companies and investors are being cautious because of the market volatility, the concerns about the euro zone debt crisis and a slowdown in growth prospects worldwide. Also, 2011 has been witness to unsuccessful mergers of stock exchanges in London and Toronto, as well as in Singapore and Australia. In addition, the merger plans for NYSE Euronext and Deutsche Borse were blocked by the European Commission at the beginning of 2012.

In these hard times, 2012 proved to be a difficult year for equity markets in Europe, where only 263 IPOs were achieved, compared to 430 IPOs during the previous year. The decline was 59%, from 26.5 billion euro in 2011 to 10.9 billion euro in 2012.

As shown in the table no. 4, the most IPOs in Europe were conducted at the stock exchange in Poland, however, according to the report of PricewaterhouseCoopers IPO Watch Europe, London is a leader of the IPOs launched in Europe, Warsaw reaching only the fourth place on the criterion of primary listings of shares value.

Table 1. Evolution of IPOs on the most successful European markets

Stock exchange	2012		2011		2010		2009		2008	
	IPO	Value*	IPO	Value*	IPO	Value*	IPO	Value*	IPO	Value*
WSE	105	731	203	2,200	26	3,770	38	1,594	91	2,502
LSE Group	73	5,137	39	13,371	52	9,034	25	1,660	99	8,884
Deutsche Borse	25	2,141	18	1,523	10	2,297	5	53	12	330
NYSE Euronext	19	1,038	27	154	11	344	9	1,907	23	2,497
NASDAQ OMX	17	48	13	288	15	2,007	11	66	26	208
Borsa Italiana	4	168	3	494	2	2,099	6	137	6	129
Luxemburg	7	564	20	451	-	-	22	1,575	19	285
BME	5	9	4	6,070	2	1,514	3	19	1	292
SIX Swiss Exchange	4	801	2	-	4	163	4	-	6	169
Oslo Bors & Axess	4	291	4	551	9	2,362	2	91	14	65

* (mil. euro)

Source: Author data processing after PricewaterhouseCoopers Annual Report "IPO Watch Europe" published between the years 2006-2012, available online at <http://www.pwc.pl/en/ipo-watch-europe/index.jhtml>, website accessed 05/21/2013

2. Activity of IPOs at BVB

In the European context, the Romanian market for initial public offerings is underdeveloped, which is also common in other central and Eastern European States. According to the stock exchange, in the period from 2001 to 2011, only 15 public offerings of stock were conducted, which supports the idea that the opening of the companies is not a real option to finance companies.

Table 2. Number of IPOs developed in Romania between 2001-2012

Year	IPO	Name of company	Level of submission
2001	1	Internațional Leasing	100,00%
2002	1	FDT Sighișoara (Dracula Park)	67,89%
2003	1	Grupul Editorilor și Difuzorilor de Presă	76,16%
2004	1	Broker Cluj	287,24%
2005	2	1. Vrancart Adjud 2. Flamingo Internațional	128,96%
2006	2	Transelectrica Alumil ROM Industry	646,31% 322,59%
2007	1	Transgaz	2791,88%
2008	4	1. Casa de Bucovina-Club de Munte 2. STK Emergent 3. Contor Group 4. Teraplast	148,80% 42,79% 100,97% 103,58%
2009	2	1. OTP WiseRO 2. OPT Green Energy	149,13% 108,96%
2010	0	-	-
2011	0	-	-
2012	0	-	-

Source: Author according to the data of Bucharest Stock Exchange, available online at <http://www.bvb.ro/TradingAndStatistics/GeneralStatistics.aspx?tab=1&m=0>, website accessed on 15/05/2013

As can be seen from the entries in table no. 2, only 15 public tenders were conducted over the past twelve years at the Bucharest Stock Exchange, which emphasizes the minimum role of the primary share market in the financing of public companies. In the period under review, 2008 is the year in which they were

successfully concluded, most IPOs, namely 4 (STK Emergent, Contor Group, Teraplast, Casa de Bucovina), of the 20 announced in that year.

Explications of the reduced number of IPOs achieved at BVB may be generated by more factors, the most relevant being the following ones:

- low level of knowledge of the issuers of the benefits of such funding modalities;
- dependence of the national financial system of commercial banks in financial intermediation activity and financing;
- underdeveloped capital market;
- the difficulty with which the financing of companies through capital market;
- its unwillingness to companies about the future of the capital market;
- conditions considered less comfortable for companies (public distribution of 25% din shares, necessity of transparency and audit of the last financial statements, fees and commissions charged by BVB and the financial intermediary that achieve the offer etc.).

All these can be considered as the main reasons for which, at present, and over time, once with setting up a capital market in our country, the number of companies choosing to finance activities through capital market is very small.

It is clear that, regarding the capital market, it has displayed a positive trend in respect of shares issued. But this apparent increase is, unfortunately, more as a result of the increase in value of quoted shares than the number of new issuers, taking into consideration that the companies listed on the capital market do not differ too much from those at the top.

Table 3. Number of companies admitted to transaction on the regulated markets

Number of companies admitted for transactions on the regulated markets	2007	2008	2009	2010	2011	2012
Bucharesr Stock Exchange	54	64	64	69	79	79
Bulgaria Stock Exchange	369	399	399	390	393	387
CEESEG - Budapest	41	43	46	52	54	52
CEESEG - Ljubljana	87	84	76	72	66	61
CEESEG - Prague	32	29	25	27	26	29
CEESEG - Vienna	119	118	115	110	105	99
Warsaw Stock Exchange	375	458	486	585	777	867

Source: Author data processing after your European Stock Exchanges Federation (European Securities Exchange Statistics), available online at <http://www.fese.eu/en/?inc=art&id=4> statistical summaries, website accessed on 11.07. 2013

As can be seen from table no. 3, *the main platform of BVB, in 2012 there were transacted 79 companies, with a market capitalization of 1.2 billion euros. We can notice a growth in the number of companies listed on the national market which is an evolution similar to most Central and Eastern European markets. At the top of the European classification there is the Warsaw Stock Exchange which is known as the most important stock exchange in Central and Eastern Europe where there are transacted the shares of 867 companies, with a market capitalization of 135 billion euros. The evolution of capitalization equity markets in Central and Eastern Europe is presented in table no. 4*

Table 4. Stock exchange capitalization in absolute value (million euros)

Stock capitalization	2007	2008	2009	2010	2011	2012
Bucharest Stock Exchange	21 523.88	6 474.07	8 402.47	9 776.32	10 817.67	12 088.11
Bulgarian Stock Exchange	14 820.75	6 371.03	6 030.96	5 498.48	6 358.35	5 025.02
CEESEG - Budapest	31 527.90	13 325.60	20 887.90	20 624.40	14 630.28	15 742.43
CEESEG - Ljubljana	19 740.12	8 468.42	8 462.22	7 027.89	4 872.81	4 911.17
CEESEG - Prague	47 987.44	29 615.12	31 265.36	31 922.18	29 203.22	28 193.22
CEESEG - Vienna	161 730.70	54 752.40	79 511.02	93 944.22	65 683.11	80 428.90
Warsaw Stock Exchange	144 323.31	65 177.59	105 157.15	142 272.23	107 482.95	134 755.48

Source: Author data processing after your European Stock Exchanges Federation (European Securities Exchange Statistics), available online at <http://www.fese.eu/en/?inc=art&id=4> statistical summaries, website accessed on 11.07. 2013

Not only the developed economies but also the emerging and frontier economies belonging to the Central and Eastern European countries have known significant diminution of IPOs launched by the national companies. As it is shown in the table no. 5, only one stock market from Central and Eastern Europe is very well developed at IPO level. The Polish stock exchange from Warsaw, which leads the top of the Eastern and Central European countries with a number of 656 IPOs in the last 6 years.

Table 5. Number of new companies admitted for transactions as a result of IPO

Exchange	2007	2008	2009	2010	2011	2012
Bucharest Stock Exchange	0	4	2	0	0	0
Bulgaria Stock Exchange	9	7	1	0	0	1
CEESEG - Budapest	1	2	0	0	0	0
CEESEG - Ljubljana	0	0	0	0	0	0
CEESEG - Prague	2	1	0	1	1	0
CEESEG - Vienna	8	0	0	0	1	0
Warsaw Stock Exchange	105	93	38	110	204	106

Source: Author data processing after your European Stock Exchanges Federation (European Securities Exchange Statistics), available online at <http://www.fese.eu/en/?inc=art&id=4> statistical summaries, website accessed on 11.07. 2013

The Polish economy is fuelled by the enterprenorial energy at local level and by the decision factors' desire to build and create politics for development of an open economics. The level of IPO proves very good performance of the Polish economy in spite of the recent global recession. Thus, the local capital market becomes one of the obvious financing means of the Polish companies.

3. IPOs evolution worldwide

As it is shown in the table no. 6, the European stock exchanges have been beaten by both the US and Chinese stock exchanges between 2009-2012.

In 2009, the sums obtained from the market activity of IPOs on the European stock exchanges represented only 17% of the money collected by China, the most active market during the year and 41% of the money collected by the USA, illustrating the fact that the investors' trust in the European markets is crossed by the two regions.

Regarding the offer value, in 2010, Europe reached third place on the world scene, slightly behind the United States, which obtained 29 billion Euros from the IPOs developed but beaten by China, which obtained 98 billion Euros. In spite of the disruptive market conditions, in the USA, a total of 134 IPOs have had a value of 25,6 billion euros by comparison to 168 IPOs which generated a value of 29,1 billion Euros in 2010. China was IPO world leader, hosting 420 IPOs with a value of 57,2 billion euros during 2011. In spite of this, it represented a decrease of 42% of its value.

In 2012 the USA was in the top of world stock exchanges from the third position in 2011, showing a certain constant activity during the entire year. The position on the top classification was due to the Facebook IPO in May with the greatest initial public offer of the year.

Table 6. Evolution of IPOs in the world

Region total	2012		2011		2010		2009	
	IPO	Offering value (€m)	IPO	Offering value (€m)	IPO	Offering value (€m)	IPO	Offering value (€m)
US	146	33,164	134	25,581	168	29,064	69	17,294
Greater China	239	22,842	420	57,240	492	98,624	208	42,828
Europe	263	10,928	430	26,491	380	26,286	126	7,112
Japan	46	7,173	36	1,495	22	7,796	19	440
Malaysia	16	5,246	22	1,643	-	-		
Latin America	15	5,005	21	6,153	22	5,727	9	9,125
Canada	62	1,393	64	1,561	-	-		
Australia	54	1,336	105	1,195	98	6,441		
Singapore	21	1,316	23	5,350	30	3,533		
Gulf Cooperation Council	9	1,304	9	567	12	1,531	10	1,400

Source: Author data processing after PricewaterhouseCoopers Annual Report "IPO Watch Europe" published between the years 2006-2012, available online at <http://www.pwc.pl/en/ipo-watch-europe/index.jhtml>, website accessed on 21.05. 2013

4. Conclusions

An IPO has both advantages and disadvantages. Thus, although this type of action creates further funds which are used for the investment activities or for debt reduction for a company, a IPS means to lose control over the company, proportional to the own capital sum sold to the bidders.

Lately, world capital markets have been significantly affected by the stormy conditions of the Euro area, by the world economic growth possibilities and especially by slow economic growth in China, supported by the volatile periods of the market.

At national the number of IPOs done lately show th relative low position of the Romanian capital market in the classification of the Central and Eastern Europe.

On European level, the shares listings on the primary market pushed 70.817 billion euros on the capital market. This situation should not leave a reactionless Romanian capital market as an intense market activity on the IPSs market would bring BVB again to the investors' attention and could help build better positions for the Romanian capital market in *Europe by difference to the secondary market transactions. For this reason, the development of the Romanian capital market should continue, and the representatives of the institutions which develop activities within it must convince local companies to look for finance on the domestic market and not bigger and more liquid markets.*

A possible solution handy for the authorities in Romania in order to develop the capital market would be to list several companies from the energetic and utilities fields on the stock exchange as the IPO launched in 2007 by Transgaz was a high success obtaining 24 times more the company's initial offer. Thus, investors would display higher trust degree by report to the local capital market. The percent for listing IPOs of small and medium sized companies would grow. This is the main reason for which at least 5% of the shares held by companies such as Hidroelectrica, Nuclearelectrica,

Romgaz, Romtelecom, Tarom and International Airport "Henri Coandă" of Bucharest would bring future development of the local capital market. **Papers that don't comply to this guide will not be consider for publication.**

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