HC SECURITIES

INITIAL PUBLIC OFFERINGS (IPOs)

STRATEGY OVERVIEW

Strategy Name	Initial Public Offerings (IPOs)
Risk Level	Medium Risk
Objectives	Short Term Trading Profits
Market Outlook	Neutral to Bullish
Break-Even Level	Issued Price

What is an IPO?

An Initial Public Offering or ‘IPO’ is essentially the issuing of shares in a company to the public for the first time. Companies seeking to raise new capital for business development, and/or growth may issue new shares, company options or convertible notes through an IPO. The company must lodge a Prospectus and/or Product Disclosure Statement with ASIC. This document provides potential investors with a primary source of information to assess the merits of the IPO.

The strategy simply involves purchasing shares in a company through an IPO – that is, prior to it being listed on the ASX. Investors may then hold the shares or sell them once they are allocated and the stock commences trading on the market.

Strategy

HC Securities maintains an extensive network of industry contacts in order to source stock in IPOs. We have successfully gained access to some of the most exclusive and sought after IPO’s for our clients in the past, and seen the benefits of this demand in the secondary market.

In addition, HC Securities has also been able to gain access to some smaller, lesser known IPO’s, many of which have dramatically outperformed the market. Many of these have been in the burgeoning resources sector but other examples can be found across other sectors including telecommunications, investment companies, and technology.

There are a number of factors which may be taken into account when trying to determine the potential success of an IPO. These can include but are not limited to:

- Is the IPO a private equity listing?
- Is there a percentage of the shares held in escrow? (This can avoid large scale selling.)
- Does management hold a percentage of the equity in the company?
- Does the company have a sound business model and is it in a sector that is currently attracting interest within the market?
- Are current market conditions conducive for IPO listings?

Risk / Reward

The risks associated with IPO's are the lack of market track record. In many cases investing in an IPO involves accepting a fairly arbitrary assessment of the company's value in terms of the issue price which can flow on to volatility in the secondary market. Additionally, by investing in an IPO, you are also investing in a company which (in the majority of cases) has not previously operated under the ASX regulatory regime.

Whilst investing in an IPO exposes an investor to risks that are uniquely associated with newly listed companies, in many cases the returns have significantly justified a willingness to participate in these new issues.

Follow Up

Any positions that are not closed out on the opening day of the IPO will need to be closely monitored. Our experience is that IPO's which do not close on the opening day above their listing price will generally be trading below the issue price 3 months later.