

INITIAL PUBLIC OFFERING MARKET: WAYS OF DEVELOPMENT IN UKRAINE

Objective. *Objective of this article consists in revealing factors restraining the Ukrainian IPO market development, analyzing its current state, as well as working out practical guidelines as to its activization.*

Methods. *In the research process the following methods were used: analysis and synthesis — to highlight the peculiarities of Ukrainian IPO market functioning, to investigate preconditions and current state of its development, as well as to synthesize obtained results into guidelines as to its activization; analogy and comparison — to compare foreign and domestic IPO markets in order to identify factors restraining development of the latter; modeling — to develop the structural model of Ukrainian IPO market functioning.*

Results. *On the grounds of conducted research the current state of Ukrainian IPO market functioning was identified, as well as factors restraining its development were highlighted. Practical guidelines as to its activization under terms of financial globalization were developed.*

Academic novelty. *For the first time the structural model of Ukrainian IPO market functioning was proposed. Its implementation can promote improving the level of Ukrainian IPO market organization.*

Practical importance. *Obtained results are directed to promoting activization of the IPO market in Ukraine and deciding the issue of domestic enterprises' long financing under terms of financial globalization.*

Key words: *IPO, Ukrainian IPO market, securities market, stock exchange, issuer, investor, IPO market trends, structural model of IPO market functioning.*

Problem statement. Transition of Ukraine to market management grounds gave rise to substantial alterations in domestic capital market functioning. Debt financing is being replaced by new methods of investment funds attraction including stock financing. IPO (initial public offering) as its form becomes widespread under terms of financial globalization. This instrument is efficient not only for a separate company obtaining long-term funds for business development but also has a positive effect on the country's economy and image in general.

Analysis of latest research and publications. Significant attention has been paid to IPO lately in scientific and practical sources. Such scientists as Jay Ritter, Ivo Welch, Steven M. Bragg, A. Lukashov, A. Mogin and others devote their studies to this issue. Generally, they analyze empirical data on developed IPO markets (USA, Europe), systematize experience and practice of conducting IPO. In Ukraine the topic of IPO is investigated by such scientists as V. Hrushko and O. Chumachenko, G. Karpenko, V. Kuksa, T. Mayorova, L. Melnichuk, etc. Great attention to IPO is paid by such analytical companies as Ernst & Young, the PBN Hill + Knowlton Strategies, Renaissance Capital, PwC, DAGDA which analyze current state of the global and

local IPO markets. However, despite substantial interest to this issue the prospects of IPO market development in Ukraine call for further research.

The article is aimed at revealing factors restraining Ukrainian IPO market development, analyzing its current state, as well as working out recommendations as to its activization. For this purpose the following tasks were set: to investigate preconditions for Ukrainian IPO market formation, to analyze its current state and compare with foreign IPO markets, as well as work out practical recommendations as to its activization under terms of financial globalization.

Description of key research material. Unfortunately, as at 2013 no IPO deals have been conducted in Ukraine. The IPO market is practically absent. Entry to local exchanges is prevented by lack of developed stock market, insufficient psychological readiness of companies to raise their business transparency, and poor investors' interest in participating in IPO market.

Nevertheless, research of grounds for Ukrainian IPO market formation shows that to date we have all necessary conditions for its activization. Among them: significant investment potential (first of all, at the cost of individual expenses); a great number of joint-stock enterprises that sharply need financing for business development (in particular, agrarian companies); operating stock market; initial legislative base and infrastructure; availability of a number of companies which have conducted IPOs abroad, have a reputation and will come back to the local IPO market and attract both domestic and foreign investors.

At the same time, we revealed a set of factors that force local issuers choose foreign jurisdictions for conducting IPO. Such factors include: insufficient level of investor rights protection, inobservance of key corporate and IR standards; poor transparency of issuers; polycentric stock exchange system; undeveloped institute of financial intermediation; low activity of individuals in stock market; non-perception of the local stock market by foreign participants (investors and issuers).

Analysis shows that today the IPO market is absent in Ukraine, but is actively replaced by the market of IPOs conducted by Ukrainian companies abroad. During 2005-2012 they attracted USD 2.32 billion in total (23 deals). But in comparison with developed IPO markets such indicator is insufficient. For instance, during 2004-2012 USA and China attracted USD 366 and 456 billion accordingly (1397 and 1814 deals). Poland conducted 764 deals for USD 24 billion. Russian companies received USD 5 billion annually in 2010-2011 and USD 66 billion totally since 1996 (table 1).

Table 1 – Comparative characteristics of IPO markets in the USA, China, Poland, Russia and Ukraine as at the end of 2012*

Country	IPO market indicators in 2004-2012	
	Quantity	Volumes, USD billion
China	1814	456
USA	1397	366
Russia	93	66
Poland	764	24

Ukraine	23	2,32
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Source: composed and calculated by the author singly based on the data [1; 2, p. 8; 3; 4; 5; 6; 7; 8, p. 11, 17; 9; 10, p. 108]

**Note.* All Ukrainian IPOs were conducted abroad, that is actually Ukrainian IPO market indicators are zero.

Conducted research enabled to reveal the trends leading the IPO market of Ukrainian companies abroad:

- domination of agrarian issuers (56,5 %). Attractiveness of agribusiness for investors consists in constant demand for agricultural products and good conditions for growth. For example, 2007 crisis barely influenced agro-industrial complex;
- popularity of Warsaw (52%) and London (39%) stock exchanges that is explained by loyal requirements for Russian-speaking issuers and high interest in Ukrainian companies expressed by investors;
- going to international capital markets through offering of shares and depositary receipts of a foreign holding company possessing Ukrainian assets. The most famous jurisdictions include the Netherlands, Cyprus, Switzerland, Austria, Great Britain, Luxemburg and the British Virgin Islands.

It was identified that further prospects of doing IPO in Ukraine depend on many factors. Based on achievements of the foreign and domestic experience we worked out a set of recommendations that would speed up IPO market development in Ukraine.

World practice shows that successful IPO market is impossible without implementation of the best corporate governance and investor relations standards. This task is especially urgent for local joint-stock companies.

Functioning of the leading stock exchange in the country is a necessary pre-condition as well. The latter should be divided into the main and alternative segments, integrated into the global stock market, have membership in the World Federation of Exchanges and have tight relations with foreign stock exchanges.

Popularization of IPO among Ukrainian individuals and raising the level of their rights' protection mean a lot, too.

It would also be timely to conduct a campaign aimed at advertising the Ukrainian IPO market worldwide via such steps as: opening foreign representative offices of the national stock exchange; launch of a special Internet service dedicated to this segment and available in at least English, German, Russian and Ukrainian versions; organization of forums, conferences, workshops for the international investment community.

We also consider that admission of foreign participants (in particular, issuers having assets in Ukraine and investors from other countries) to the local IPO market would be an important step for its development.

The undertaken research of the current state and prospects of using IPO in Ukraine enabled to suggest a structural model of Ukrainian IPO market functioning which describes it as a process including the following links (according to IDEF0 functioning modeling methodology) (figure 1): 1) incoming link assuming initial

offering of issuers' securities; 2) outgoing link representing demand of investors for issuers' securities and their further turnover in the secondary market; 3) managerial link according to which IPO market is regulated by the National Commission in Securities and Stock Market, the Verkhovna Rada of Ukraine, the National Commission conducting regulation in the sphere of financial services markets (Nazkomfinposlug) and the National Bank of Ukraine; 4) mechanism link that determines interconnections between all IPO market participants; 5) functional block providing circulation of securities from issuers to investors in exchange for investment funds in IPO market. Implementation of this model may assist in raising the level IPO market organization in Ukraine.

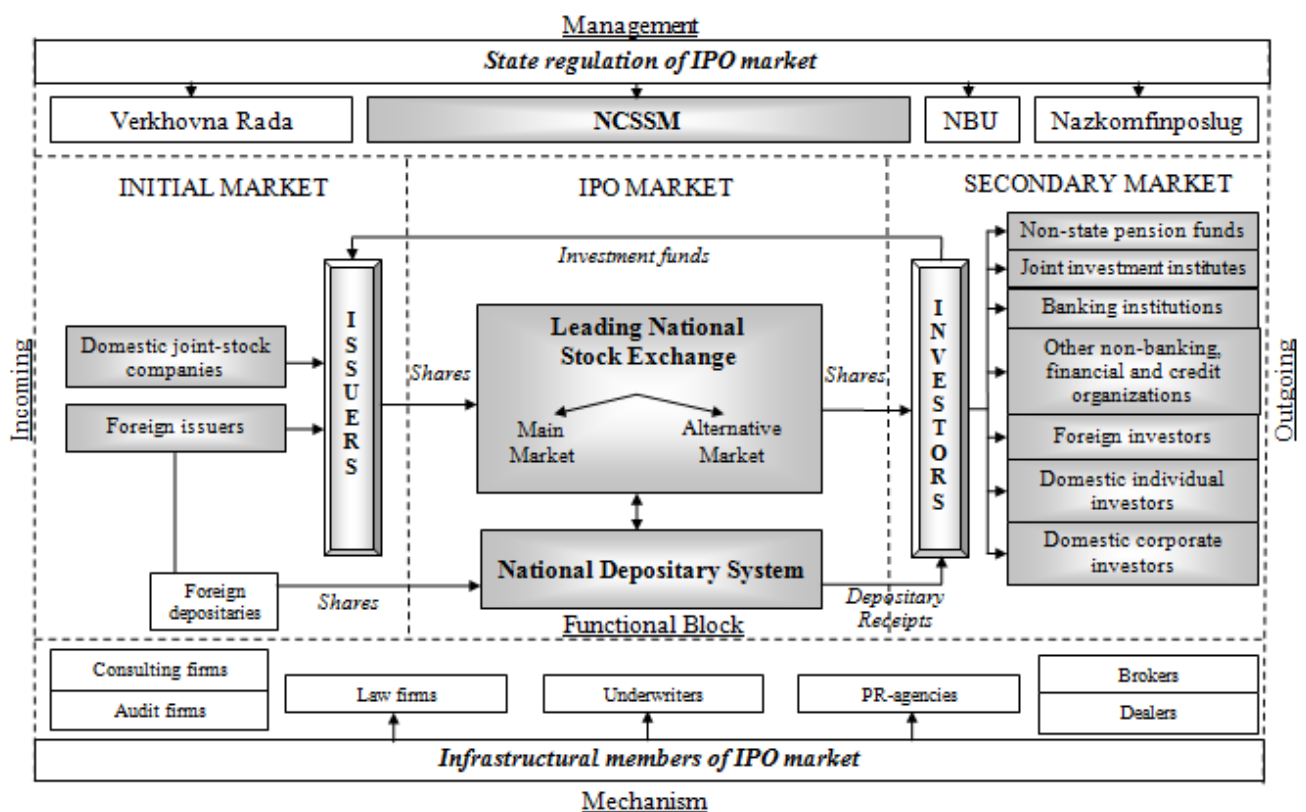


Figure 1 - Structural model of Ukrainian IPO market functioning worked out according to IDEF0 functioning modeling methodology

Summary and prospects of further research. Ukraine has all necessary conditions for local IPO market activization. Among them: significant investment potential; a great number of joint-stock enterprises that sharply need financing for business development; operating stock market; initial legislative base and infrastructure; availability of a number of companies which have conducted IPOs abroad, have a reputation and will come back to the local IPO market. But a set of factors force Ukrainian issuers choose foreign jurisdictions for conducting IPO. They include: insufficient level of investor rights protection, inobservance of key corporate and IR standards; poor transparency of issuers; polycentric stock exchange system; undeveloped institute of financial intermediation; low activity of individuals in stock

market; non-perception of the local stock market by foreign participants (investors and issuers).

It was concluded that today the IPO market is absent in Ukraine, but is actively replaced by the market of IPOs conducted by Ukrainian companies abroad. Conducted research enabled to reveal the trends leading this market: domination of agrarian issuers (56,5 %); popularity of Warsaw (52%) and London (39%) stock exchanges among Ukrainian companies; going to international capital markets through offering of shares and depositary receipts of a foreign holding company possessing Ukrainian assets.

Further prospects of doing IPO in Ukraine depend on many factors. We worked out a set of recommendations that would speed up IPO market development in Ukraine. They include: implementation of the best corporate governance and investor relations standards in Ukrainian companies; consolidation of domestic platforms into the leading national stock exchange and its active integration into the global stock market; popularization of IPO among Ukrainian individuals and raising the level of their rights' protection; conducting an active campaign aimed at advertising the Ukrainian IPO market and admission of foreign participants (in particular, issuers having assets in Ukraine and investors from other countries).

We also suggested a structural model of Ukrainian IPO market functioning (worked out according to IDEF0 functioning modeling methodology). Its implementation may assist in raising the level IPO market organization in Ukraine.

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