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ALTERNATIVES TO AN IPO

A Comparative analysis between methods of listing:
The Spotify Direct Listing Case.

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Introduction

The environment of public capital markets is both dynamic and complicated, providing various option for enterprises desiring to convert from private to public organisations. I How can organisations balance the appeal of quick cash injection against the difficulties of regulatory compliance and market scrutiny? What criteria indicate the success of an IPO or its alternatives, and how can firms employ this information to maximise their public offering strategy? By engaging these problems, I will try to provide a coherent analysis to the current body of knowledge on public listings, presenting a narrative that reflects the previous practices and the new phenomenon that are rising to better satisfy all the requests a firm can have in the path of a listing process talking about previous practices and trends in this landscape. The thesis is structured into four chapters, the first one analyses the traditional Initial Public Offers (IPOs), focusing on the process and the roles of the various actors, moving then into the legal framework and then in problem related to this listing method as underpricing and asymmetric information theory. The second chapter will propose the Alternatives Methods of Listing, a major focus will be on Direct Listings, then I will also analyse SPACs, Reverse Mergers, Crowdfunding and Private Placements. The thesis will then focus on legal frameworks, financial processes, and market behaviours that constitute the public offering sector. In the third chapter we turn our focus to the Key success Indicators (KPIs), the key measurements that give actual proof of a company's success in the public markets. This chapter dissects the many KPIs that serve as standards for measuring the performance of the different listing strategies covered in the previous chapters. I will investigate how these KPIs give actionable insights into the strategic and operational efficacy of IPOs, direct listings, and other techniques. The emphasis will be especially on IPOs and Direct Listing, the second one in particular has altered market entrance methods, on the last chapter the analysis will revolve on the case studies of Spotify direct listing and empirical data to discover patterns and draw insights on the efficacy and reception of diverse public offering tactics. The narratives of firms like Spotify underline the disruptive potential of selecting an alternative road to going public, the thesis also investigates the function of underwriters, the effect of market conditions, and the key performance indicators comparing the different listing methods.

1 Initial Public Offering (IPO)

1.1 Definition and Trends

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance for the first time. An IPO allows a company to raise equity capital from public investors.[1]

IPO allows a company to:

- raise capital by creating new listed shares (Primary IPO)

- and/or to monetize the investments in existing shares of private investors (Secondary IPO).

Most firms that go public do so with the support of an investment banking institution operating as an underwriter. Accurately determining the share price and creating a public market for shares (first sale) are two of the underwriters' services.

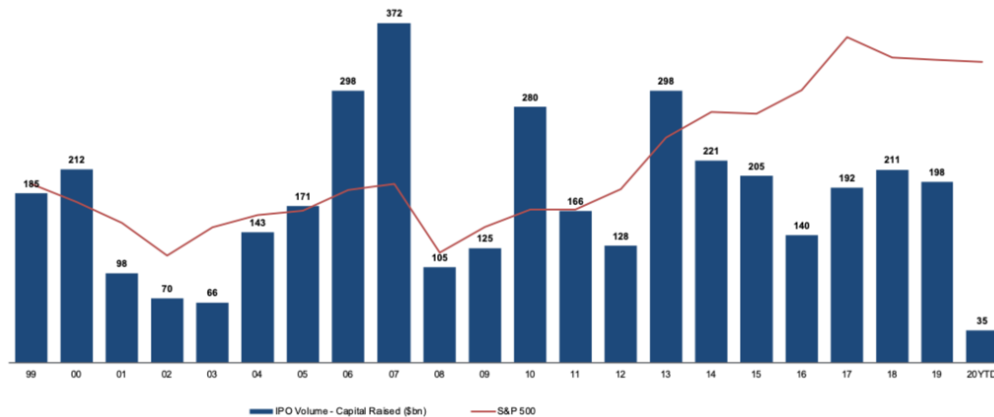
Furthermore, the initial public offering (IPO) is a long-term transformative process that necessitates a whole process and firm transition from private to public.

For several decades, Wall Street and investors have been using the term initial public offering interchangeably. By making shares of the Dutch East India Company available to the public, the Dutch are recognised for having carried out the first modern initial public offering. Since then, businesses have raised money from the public by issuing public shares to investors through initial public offerings.

IPOs have been associated with both upward and downward patterns in issuance throughout time. Innovation and other economic variables cause certain industries to undergo ups and downs in their issuance. During the peak of the dotcom boom, several tech IPOs occurred as cash-strapped firms flocked to the stock market to list.

[1] Fernando, J. (2023, December 22). Initial Public Offering (IPO): What It Is and How It Works. Investopedia. https://www.investopedia.com/terms/i/ipo.asp

Figure 1.1: IPO Market Global Trends – Global Volume Evolution[2]



According to the figure 1.1 there isn't much of a relationship between IPOs and market performance (red line). Every significant market decline has been brought on by a shock. The volume of IPOs has a negative association with it. One of the IPO market's enemies is volatility. In the study (Dicle & Levendis, 2018)3 it is highlighted that decision making criteria for investor regarding this matter take into account market volatility, the study concludes that meanwhile the realized volatility is already valued throughout the IPO process, the problem concerns the expected volatility. Therefore, it appears that low volatility encourages initial public offerings (IPOs) and the ensuing broad public exchange of ownership rights in businesses. To promote initial public offerings, regulatory laws must be designed to minimise market volatility.

It is important to understand that a company's industry of operation has a big impact on its IPO strategy and timeline. The industry sets the capital needs and regulatory environment in addition to dictating market characteristics. For this reason, there are sectors in which more companies follow the path of an IPO. The Financial Institution Group (FIG), Industrial, Technology, Media, and Telecom (TMT) make up 57% of the entire volume, as seen in the pie chart below.

[2] Source: Thomson Reuters as of March 2020

[3] Dicle, M. F., & Levendis, J. (2018, March 12). *IPO activity and market volatility*. Journal of Entrepreneurship and Public Policy.

Figure 1.2: YTD Cumulated Global IPO Volume by Industry, 1999–20 (Total: $3,919 billion)[4]

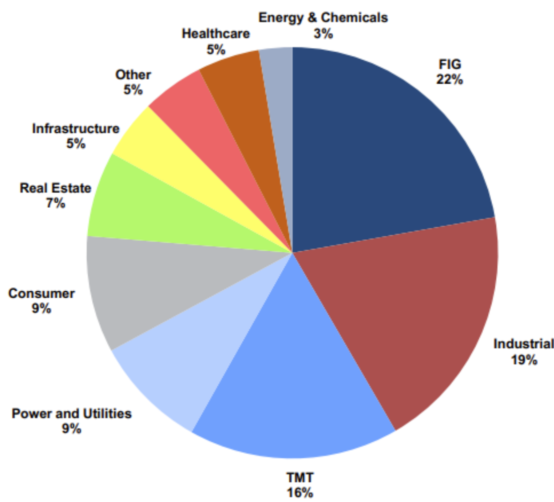
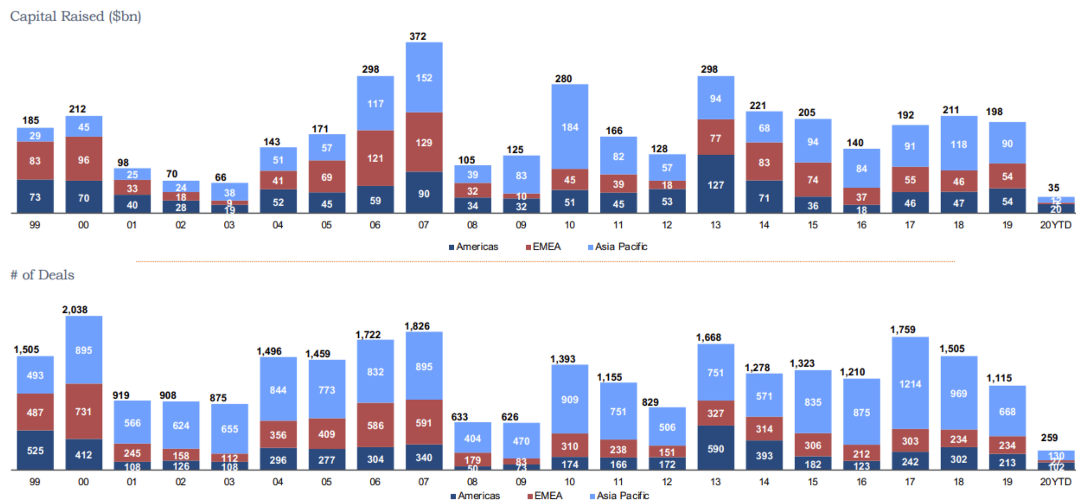


Figure 1.3 Global IPO Market Trends: Geographical Distribution of Global IPO Volume, 1999–2000)[5]



In order to understand the geographical dynamics of IPO operations, it is essential to examine the flow of money and the frequency of deals in different global market regions. The following chart analyse the volume of IPO's activities in Americas, EMEA and Asia Pacific. The Asia Pacific area has a consistent upward trend in the amount of

[4] Source: Thomson Reuters as of March 2020

[5] Source: id

capital raised, with a particularly notable increase in the years running up to 2020. The regions of the Americas and EMEA exhibit periodic variations characterised by intermittent high points and low points. The Asia Pacific region shows an increase in the number of agreements, especially in the latter years. On the other hand, the Americas present a more diverse trend, while the EMEA region experiences a gradual decrease in the number of deals leading up to 2020.

1.2 The role of Underwriters

Investment Banks are the key actors in the path of an IPO.

IB are responsible for underwriting the issue and they will run the overall IPO process.[6] There are 2 kinds of commitment from investment banks:

-First Commitment Underwriting: In this instance the issuer sells the whole issue to an underwriting syndicate (a group of banks led by a lead underwriter). The syndicate then resells the issue to the public. The underwriters earn money on the difference between the price paid to the issuer and the price obtained from investors when the shares is sold. The syndicate bears the risk of not being able to sell the entire issue for more than the cost, this is a quite profitable business but very risky.

- Best Efforts Underwriting: The underwriters must do their “best effort” to sell the securities at an agreed-upon offering price. Unlike the prior example the firm has the risk of the issue not being sold, hence the Bank has no liability for any unsold shares. Indeed, the offer may be retracted if there is not enough demand at the offer price and the business does not acquire the cash and it has still spent considerable flotation costs.

1.3 Pros and cons of going public

Going public or not is one of the most important decisions which any privately-owned firm needs to make. There are both pros and cons closely associated with this process.

Regarding financial situation thanks to IPO the firm will have access to bigger and more diverse pools of finance, and financial flexibility (firm may obtain capital from stock, from debt, from a hybrid and also the pool of investors is extremely diversified). The money generated by an IPO boosts the company’s net value, reducing future debt and equity financings. A publicly listed corporation may obtain more funds through further

[6] Hayes, A. (2023, September 29). Underwriter Syndicate: What it is, how it Works. Investopedia. https://www.investopedia.com/terms/u/underwriter-syndicate.asp

stock offerings. About the company profile there is an increase in awareness and attention from the investment community and strengthened the reputation of the firm (brand reputation). There is also a bigger exposure and better prestige regard privately held business but at the same time you accept to be benchmarked against all other public peers. The firm owing to his reputation gain could attract and retain people utilising equity incentives such as stock options. There is a dual benefit in liquidity terms in fact there is a better market valuation for the firm and better liquidity for its shares, which allows shareholders to more readily sell or expand their interests, but also the opportunity for exit of current shareholders upon the offering if so desired.

Several potential downturns need to be considered in this process, first of all the present shareholders' percentage ownership of the firm will be diluted in a public offering in case of is a capital increase component; the firm will have also disclosure obligations, in fact it will become subject to periodic reporting and various other obligations like disclosure of price sensitive information (US -Sarbanes-Oxley Act of 2002).[7] The process of going public is both time consuming and costly, compliance with reporting requirements may increase the company's general and administrative costs and also the management will have to devote time in public relations and in updating the investing community about the firm.

Smaller, younger firms and high-tech companies are less inclined to go public due to these factors. As a result, initial public offerings (IPOs) are more commonly pursued by high-debt/high-investment corporations. Going public allows these firms to surpass borrowing restrictions and implement stock-based incentive contracts for investments. In addition to the preceding cases also firms with higher levels of risk are more inclined to make an initial public offering (IPO) due to the potential for diversification, which allows the controlling shareholder to reduce their ownership position. Furthermore, firms that provide higher interest rates are more likely to go public, since being a publicly traded company increases their ability to negotiate with banks, resulting in lower borrowing rates.

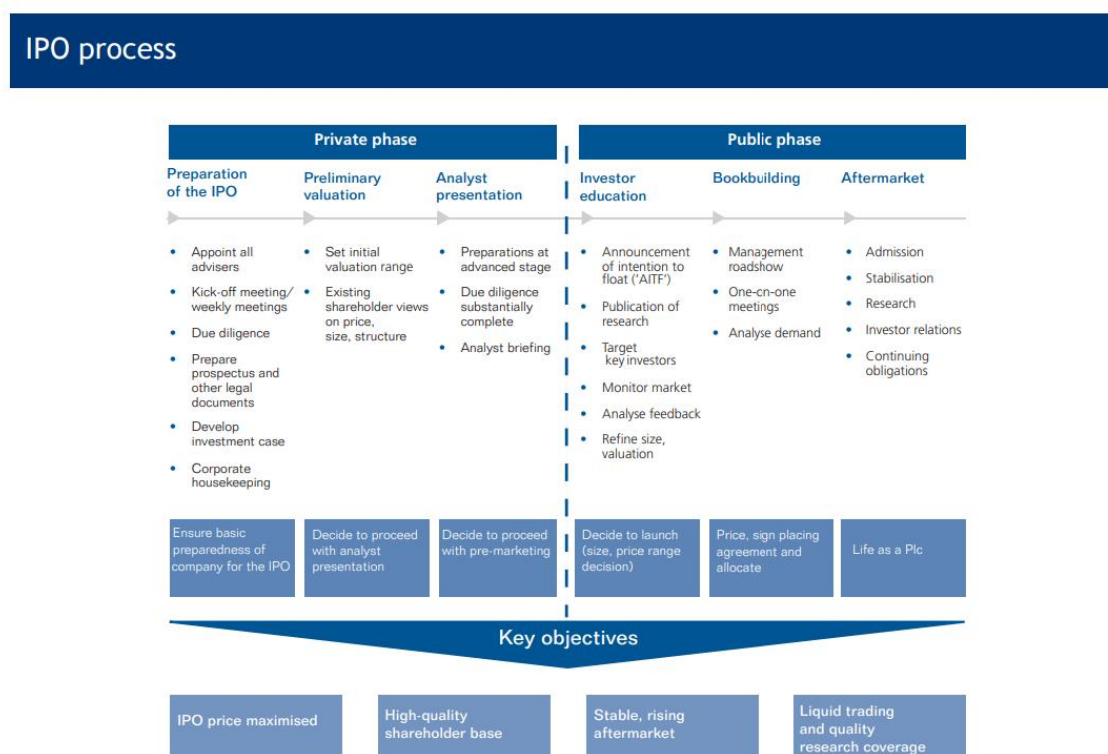
[7] An Act To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes. (Sarbanes–Oxley Act, 2024). Wikipedia.

1.4 Prerequisites for an IPO

When considering an Initial Public Offering a firm has to meet several prerequisites to ensure its appeal and viability in the market. The company should operate in an attractive sector characterized by compelling market dynamics and a competitive environment (better in case of industry with barriers to entry). The firm should also exhibit great development potential, so low risk growth potential and predictable earnings with low volatility. A robust financial performance with solid operating and financial track record are essential, but also the strength and stability of management have a key role. It is advised for a company to have a minimum free float of €200 million to appeal to a broad investor base and prevent liquidity discount.

1.5 Process[8]

Figure 1.4 IPO Process[9]



The IPO process consist of two distinct parts and takes on average 4 to 6 months. The first is the pre-marketing phase of the offering, while the second is the initial public

[8] Main source for the paragraph 2.1.5: London Stock Exchange, 2010. A guide to listing on the London Stock Exchange

[9] Source: London Stock Exchange, 2010. A guide to listing on the London Stock Exchange.

offering itself. When a firm is interested in an IPO, it will advertise to underwriters by asking private bids or it can also make a public declaration to create interest. The underwriters lead the IPO process and are chosen by the business. A business may pick one or more underwriters to manage different stages of the IPO process jointly. The underwriters are involved in every phase of the IPO due diligence, document preparation, filing, marketing, and issuance.[10]

1.5.1 Preparation of IPO

- Selection of a Sponsor: A firm looking for a listing must hire a sponsor to manage and organise the team of professional advisers. The sponsor plays a critical role in ensuring the smooth completion of the listing process. The sponsor also has duties to both the firm and the Listing Authority.[11]

- Appointment of Other Professional Advisers: In addition to the sponsor, the business assembles a team of advisers comprising bookrunners, attorneys, accountants, financial public relations advisers, compensation consultants, registrars, and financial printers. They could also hire valuation specialists or sector consultants.

- Initial Meetings and Due Diligence: This part starts with a kick-off meeting to review the transaction's structure, procedure, and timeframe. There are regular weekly meetings to track the project. Also, the due diligence is undertaken to make sure about the correctness and completeness of the company's prospectus and to comprehend any difficulties that can be related to the company.

-Building the Investment Case: The presentation is a chance for the firm to develop a solid investment case. By properly conveying its strengths and possibilities, the organisation attempts to positively impact analysts' impressions and subsequent reports.

-Prospectus Preparation: The sponsor is responsible for preparing and submitting the prospectus for the evaluation (this process generally takes 6-8 weeks). This document is explaining the company's strengths, strategy and market potential.

-Business, Financial and Legal Due Diligence: Check the company's business plan and growth potential, it may include onsite inspections and interviews with stakeholders.

[10] Fernando, J. (2023, December 22). Initial Public Offering (IPO): What It Is and How It Works. Investopedia. https://www.investopedia.com/terms/i/ipo.asp

[11] Ukla in United Kingdom, Consob in Italy and Sec in The United States.

Examination of financial statements and accounting standards, analyse of the firm’s legal framework.

1.5.2 Preliminary Valuation

-Determining the Valuation Range: After collect all data regarding the company's financial performance, market position, and growth prospects the IB start to set an initial range for the company's valuation.

-Considering Existing Shareholder Perspectives: Stakeholders have a strong interest about the result of the IPO so in this process we have to take into account existing shareholders views about the price, size, and structure of the IPO.

1.5.3 Analyst presentation

-Finalizing Due Diligence: The due diligence procedure, which entails a comprehensive review of the company's financial and operational elements, should be nearing conclusion. This guarantees that the value is built in a full grasp of the company's health and future.

-Analyst Briefing: An analyst briefing may be organised to provide insights and specific information to financial analysts. This assists in establishing an informed value view and prepares analysts for producing their reports on the firm.

1.5.4 Investor education

-Public Announcements: The firm declare its intention to float which is a public disclosure of its plans to continue with the path of an IPO. This is the first announcement that switch from internal preparations to interacting with the market.

-Publication of Research and Feedback Analysis: Research about the firm is released, typically enlightening the market and potential investors about the company's value offer. Feedback from this research and market analysis is utilised to improve the IPO's size and valuation further.

-Monitoring Market conditions: A continual examination of market circumstances is vital. This involves studying investor mood, market trends, and broader economic factors that might affect the value and success of the IPO.

-Analysing Feedback: Feedback from many sources, including potential investors, analysts, and market experts, is collected and examined. This input is vital for understanding how the market sees the firm and its worth.

-Refining the IPO Size: Based on the market reaction and internal evaluations, the firm modifies the size of the IPO. This might entail deciding on the number of shares to be offered and perhaps the proportion of the firm that will be publicly listed.

-Adjusting the value: The value range defined originally may be changed in response to market feedback and the evolving market conditions. This adjustment is aimed at finding the correct balance between attaining a favourable value and guaranteeing a successful uptake of the IPO.

1.5.5 Bookbuilding

-Management Roadshow: This entails the company's management team traveling to meet possible investors. The objective is to communicate the company's business, strategy, and prospects directly to a wide spectrum of institutional investors. These speeches are critical for establishing investor trust and interest in the IPO.

-One-on-One Meetings: meetings with key potential investors are engages by the management. These sessions made to have a deep conversation, targeted to the unique issues or interests of individual investors. They offer an opportunity for the company to address particular issues and create strong connections with important investors.

-Analysing Demand: Throughout the roadshow and meeting process, the firm and its advisers actively monitor and evaluate investor demand for the IPO. This research entails measuring the degree of interest from different investor categories, determining their impressions of the company's valuation, and gathering input on the proposed parameters of the IPO.

To objective of this 5th phase is a successful pricing, so the information obtained during the roadshow and one-on-one meetings are essentials in order to calculate the final IPO price. It assists in finding a balance between establishing a good valuation for the firm and assuring high investor demand.

1.5.6 Aftermarket

-Admission: This is the moment at which the company’s shares are formally listed and start trading on the stock exchange. Admission is the completion of the IPO process and signals the beginning of the company’s existence as a public entity. It entails the formal inclusion of the company's shares on the stock market, enabling for public trade.

-Stabilization: After the IPO, there is frequently a stabilization phase where underwriters can purchase back shares to limit price volatility. This is a normal technique to prevent large volatility in the share price shortly after the IPO. The objective is to enable a seamless introduction into the market and to preserve market trust in the company’s shares. (Green Shoe option)[12]

-Research: post-IPO, investment analysts continue to study and issue research papers on the firm. This continual research is crucial for giving existing and future investors with up-to-date analysis and information about the company’s performance and prospects.

-Investor Relations: The firm want to keep a solid relationship with investors. This comprises regular contact with shareholders and the larger investing community, so this included an accurate disclosure of financial reports, news about business activities, and replies to investor queries. Effective investor relations are vital to establishing and keeping investor trust and confidence.

-Continuing Obligations: Being a public firm also originates a set of continuous regulatory responsibilities and obligations. These include ongoing disclosure requirements, compliance with financial reporting standards, adherence to corporate governance principles, and other regulatory duties. The corporation must provide openness and regular contact with the market, keeping strong standards of corporate governance.

[12] Paul, C. (2012, January 1). Understanding the Green Shoe Option in Public

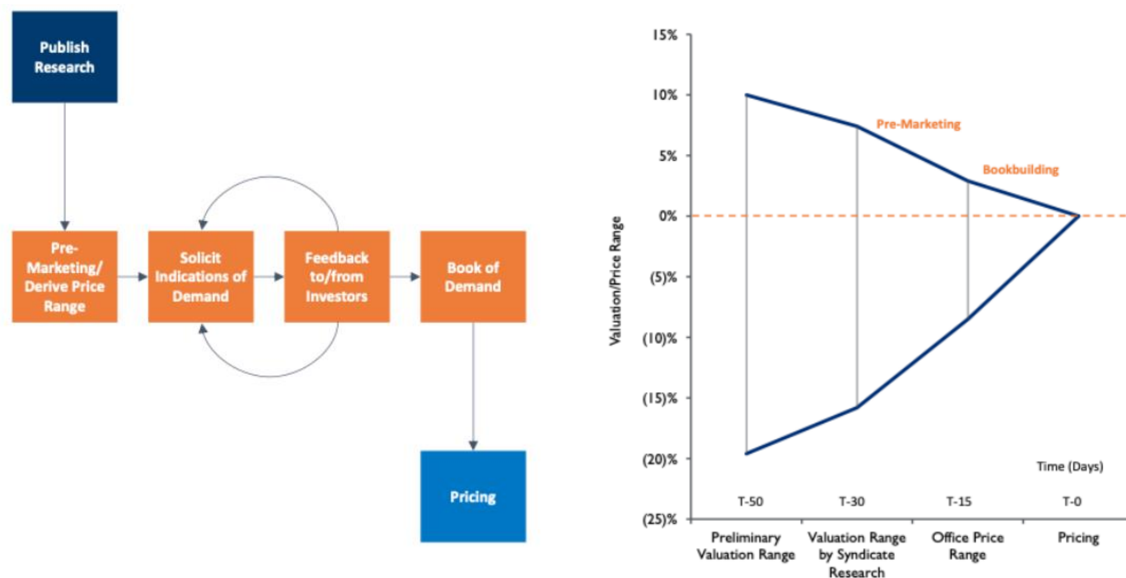
Green Shoe Option were introduced in 2003, it is a price stabilization tool that helps maintaining the price of newly listed shared in a certain range (it last up to 30 days after the listing). The bank in charge of stabilising the price sells short a certain number of shares at a price equal to the initial placement price, if the price falls in the first few days the IB does not exercise the option and buys the shares necessary to cover its short position (to raise the price) on the market. If the price rises, the bank instead executes the option by putting additional shares back on the market, therefore increasing the free float and lowering the market price.

1.6 Pricing

One of the key challenges involved with the IPO is pricing the shares offered by the listed business. Setting the price of an IPO is tough because the business is new in the market and thus no trading history exists nor does the firm have any outstanding analyst coverage. (See & Rashid, 2011).[13]

The most common method in IPOs is book building, in this case the investment bank responsible for marketing the IPO receives information on the price at which investors want to bid and the quantity of the securities they are interested in acquiring. In underwritten initial public offerings (IPOs), investment banks provide a guarantee to client firms by purchasing the shares themselves. Underwriters mitigate their risks by assessing the demand through the preliminary collection of indicators of possible investors' interest during the premarketing phase (road shows). The ultimate pricing and distribution of IPO shares will be contingent upon the feedback gathered during the premarketing stage.

Figure 1.5 Bookbuilding Process and Development of Price Range[14]



[13] See, K. F., & Rashid, A. A. (2011). Determinants of non-disclosure of intellectual capital information in Malaysian IPO prospectuses. International Journal of Economics and Finance, 3(5), 178.

[14] Picture from M&A and Investment Banking course at LUISS Guido Carli university.

A second pricing method is the auction, in this case the shares are being made available for purchase, according to a preset timetable, to many possible buyers who are in competition with each other. There are two different auction method, single-price (or uniform-price) auction in which all successful bidders are required to pay the minimum amount, regardless of their individual bidding prices and discriminatory (or Dutch) auctions in which all the successful bidders are required to pay the exact amount they bid. Due to the auction mechanism, neither the issuer nor the underwriters can determine either the stock's price or its investors. Furthermore, there is also another pricing method, the fixed price offerings, in this instance the company indicates the number of shares they are going to issue in the market and the proposed price, for this case the danger of under-pricing and the risk of not be able to sell all the shares increase.

Investment banks commonly utilises primary and secondary strategies when it comes to valuation operations. The core valuation approaches involve an analysis of Comparable Quoted Companies and the employment of Forward-Looking Multiples. These tactics rely on comparing the business in question with similar publicly listed firms and projecting future financial multiples. Secondary valuation methodologies encompass Discounted Cash Flow (DCF), Dividend Discount Model, and Net Asset Value (NAV). These strategies are more intrinsic and rely on the company's own financial projections and asset appraisals. The use of these valuation methodologies is not complex the actual challenge is locating the correct comparable firms and computing the relevant KPIS so to have an effective company value.

1.6.1 Underpricing[15]

Underpricing is the practice of listing an initial public offering (IPO) at a price below its real value in the stock market. When a new stock closes its first day of trading above the set IPO price, the stock is considered to have been underpriced.[16]

According to (Ibbotson 1975)[17] there are several explanations for underpricing, the primary observation is the high average first-day return of IPOs, at 18.8%, which

[15] Main source: Ritter, J. R., & Welch, I. (2002). A Review of IPO Activity, Pricing and Allocations.

[16] Kagan, J. (2019, July 14). Underpricing: Definition, How It Works, and Why It's Used. Investopedia. https://www.investopedia.com/terms/u/underpricing.asp

greatly surpasses the average daily market return of 0.05%. This mismatch shows that simple market misevaluation or asset-pricing risk premia may not completely explain the underpricing. A key point raised is why first-day investors in IPOs require compensation for bearing systematic or liquidity risk, while second-day investors do not seem to demand the same premium, even though the fundamental risks and liquidity constraints are unlikely to be resolved in just one day. This leads to the theory that the answer to the underpricing conundrum rests in the initial fixing of the offer price, where the regular dynamics of supply and demand are interrupted by the underwriter's influence.

1.6.2 Asymmetric Information Theories[18]

The price of Initial Public Offerings (IPOs) is determined by a combination of several theories, each providing a distinct viewpoint on the underlying dynamics. Asymmetric Information Theories propose that there are varying levels of information between IPO issuers and investors.

When the issuer possesses more information than investors, rational investors become concerned about the presence of a lemons problem.[19] To differentiate oneself from the pool of low- quality issuers, high-quality issuers may try to prove their quality. In these models, better quality issuers purposely offer their shares at a lower price than the market perceives they are worth, which deters inferior quality issuers from replicating. With sufficient patience, these issuers can recover their up-front sacrifice post-IPO, either in future issuing activities[20], favourable market responses to future dividend announcements[21], or analyst coverage[22]. Empirical evidence on these theories is mixed, some research indicates a correlation between under-pricing and future market activity,

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[17] Ibbotson, R. G. (1975, September). Price performance of common stock new issues. Journal of Financial Economics, 2(3), 235–272.

[18] Main source: Ritter, J. R., & Welch, I. (2002). A Review of IPO Activity, Pricing and Allocations.

[19] The lemons problem refers to issues that arise regarding the value of an investment or product due to asymmetric information possessed by the buyer and the seller.
Chen, J. (2021, November 29). *Understanding the Lemons Problem and How to Solve It*. Investopedia. https://www.investopedia.com/terms/l/lemons-problem.asp

[20] Beatty, Randolph P., and Jay R. Ritter, 1986, Investment banking, reputation, and the under- pricing of initial public offerings, Journal of Financial Economics 15, 213-232.

[21] Allen, Franklin, and Gerald R. Faulhaber, 1989, Signaling by underpricing in the IPO market, Journal of Financial Economics 23, 303-324.

[22] Chemmanur, Thomas J., 1993, The pricing of initial public offers: A dynamic model with information production, Journal of Finance 48, 285-304

while others like Michaely and Shaw (1994), do not discover such a link. In cases where investors have more knowledge about market demand than issuers, underpricing can also arise due to the issuer's uncertainty about the stock's market demand. Different theories describe phenomena like a winner's curse or negative cascades, stating that underpricing is important to secure fair average returns for investors. In summary, IPO pricing theories usually focus on addressing asymmetric information and balancing the interests of issuers, underwriters, and investors in the IPO market. The agreement is that underpricing acts as a mechanism to balance the impact of information asymmetry, while the causes and processes continue to be contested.

2 Alternatives Methods of Listing

An IPO is the most typical way for a private business to get listed. These are frequently highly advertised events, and the exposure can help attract new investors. An IPO enables a firm to have access to a much larger pool of capital and generate the finances necessary to capitalise on future development prospects. Underwriting a share issuance is an important part of the initial public offering process, but it may be costly. During times of economic uncertainty, an IPO may fail to attract potential investors and may even be abandoned in the middle of the process. Market mood may shift fast, and if an IPO is cancelled, a lot of work and money will have been lost with little results to show for it. An IPO can also take a lengthy period, often one to two years, owing to the legal requirements of a listing and the necessity to generate interest among possible investors.[23] Because of the limitations outlined above, IPOs are not always the ideal path for all firms, emerging options like as direct listings, SPACs, and DLPOs are gaining prominence. Each of these possibilities has its own set of benefits and problems, and businesses must carefully weigh their options before opting to go public.

2.1 Direct Listing

A direct public offering (DPO), known also as a direct listing, is a form of offering in which a firm raises funds by selling its securities directly to the general public. An issuing business that uses a DPO removes the intermediaries (investment banks, broker-dealers, and underwriters) that are common in initial public offerings (IPOs), and self-underwrites its shares. Cutting away the intermediaries from a public offering significantly reduces a DPO's cost of capital. As a result, a DPO appeals to small businesses as well as those with a long-standing and devoted client base.[24]

2.1.1 Background[25]

In the U.S., corporations usually take the crucial step of going public through an underwriting initial public offering (IPO). On February 2, 2018, the SEC accepted a NYSE proposal, "Selling Shareholder Direct Floor Listing," which permitted direct

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[23] *Alternative methods of listing | ACCA Global*. (n.d.). https://www.accaglobal.com

[24] Kenton, W. (2023, June 1). Direct Public Offering (DPO): Definition, How It Works, Examples. Investopedia. https://www.investopedia.com/terms/d/directpublicoffering.asp

[25] Zheng, M. (2020, January 1). *Direct Listing or IPO?* Social Science Research Network.

listing businesses to list existing shares without underwriters but prevented them from raising capital (DLNR: Direct Listing, No Raising). An opening auction in the stock market decides the initial share price and allocates shares by matching orders filed from buyers and sellers. Shortly following clearance, Spotify was listed directly on the NYSE on April 3, 2018. On December 22, 2020, the SEC authorised another NYSE proposal on "Primary Direct Floor Listing," which allowed DL businesses to raise fresh capital (DLR: Direct Listing, Raising).

2.1.2 Requirements[26]

Before February 2018, private firms could only list directly on stock exchanges like the NYSE and Nasdaq by proving a $100 million aggregate market value of publicly owned shares. The NYSE and Nasdaq altered its regulations to facilitate direct listings. These adjustments included decreasing the necessity of a persistent trading history in a private placement market. The new guidelines allow firms to list with an independent third-party value of at least $250 million but these firms are obligated to engage a financial advisor for pricing their initial transaction. Rether than that companies must still fulfil distribution, pricing, financial criteria, and corporate governance requirements for listing.

To publicly list its shares for the first time, a corporation must register under the Exchange Act or the Securities Act. Generally, a corporation must register under the Securities Act if the transaction being registered involves an offering and sale of securities and can register under the Exchange Act if the relevant transaction does not include an offering and sale of securities.

Securities Act registration, involving Form S1 or F-1 for foreign issuers, entails a higher liability and is typically employed for public sale and distribution. In contrast, Exchange Act registration using Form 10 doesn't incur Securities Act responsibilities and is applied for forming a reporting business without a specified resale offering activity. For direct listings, a Securities Act resale registration statement, either Form S-1 or F-1, is now needed, ensuring that all shareholders can sell their shares from the first day of

[26] Pitts, A. J., Bennett, D. S., Mariani, M. E., & Cook, M. R. (2020). Direct Listings: Going Public Without an IPO. REV. OF SEC. & COMMOD. REG., 53, 139-139.

trade. Additionally, Rule 144[27] of the Securities Act offers exemptions allowing the public trading of restricted securities under specific situations. Typically, after a direct listing, corporations deregister the Form S-1 or F-1 within 90 days.

When it comes to disclosure variances, registration statements in direct listings are comparable to typical IPOs but vary in parts pertaining to price and distribution. Direct listings do not have pre-set share pricing and volumes; instead, the initial public prices are decided by buy-and-sell orders gathered on the stock market. These listings need special disclosures concerning pricing methodologies, the role of financial advisors, the listing procedure, and potential dangers unique to direct listings. The distribution strategy in a direct listing also differs from a typical IPO. It specifies that stockholders may sell their shares, details the methods for setting first trading prices, and contrasts the function of financial advisors with that of investment banks in an underwritten IPO. In a direct listing, financial advising costs are disclosed separately from the underwriting remuneration.

2.1.3 Process[28]

Direct Public Offerings (DPOs) process can be divided into three key stages: preparation, compliance filing, and sale of the investment opportunity.

The preparation step can last from a few days to many months, depending on the issuer's preparedness and legal compliance. This step entails verifying that the issuer is in compliance with securities laws, keeping up to date financial records, and following all relevant legal procedures. It also entails selecting on the sort of security to be sold, which may need modifying the business type, as well as preparing detailed offering documents and any legal documentation required for the offering.

Compliance filing is the submission of a full set of documents to state securities authorities in each state where securities will be offered. This package normally comprises the offering document, specimen security, formation documents, financials,

[27] Rule 144 offers an exemption and authorises the public resale of restricted or control securities if many restrictions are followed, including how long the shares are kept, the mode in which they are offered, and the amount that can be sold at any one time. But even if you've satisfied the terms of the regulation, you can't sell your restricted shares to the public until you've acquired a transfer agent to remove the legend.

[28] Cutting Edge Capital. "How Long Does a DPO Take? https://www.cuttingedgecapital.com/how-long-does-a-dpo-take/

and possibly a legal opinion. The period from submission to gaining clearance for a public offering span from three weeks to six months, depending on numerous factors.

The time is impacted by the differing efficiency and friendliness of governments towards direct public offers, the form of the offering, and the extent of inspection by regulators. States that conduct a merit assessment, considering the possible risks to investors, generally take longer than those undertaking merely a disclosure review, which focuses on the adequacy of information supplied. The procedure can be delayed by demands for specific considerations, including secrecy of financials, or if the offering has uncommon components that raise regulatory concerns. Additionally, authorities may perform many rounds of questioning, regardless of the company's track record or the offering's straightforwardness, particularly during their busy seasons.

Once clearance is given, the firm is authorised to sell to the public, according to any constraints established by the authorities and applicable laws. Typically, there is a one-year window for fundraising, which may be repeated yearly, allowing for continued capital raising.

2.1.4 Pricing[29]

In the direct listing procedure, corporations must comply to special stock market standards and involve distinct role-players. Companies qualifying for direct listing under new stock exchange regulations need a third-party valuation of the aggregate market value of their shares, often given by an investment bank that fulfils stock exchange standards. Unlike a standard IPO where a stabilization agency controls the opening of shares for trade, a direct listing does not include an underwritten offering or a stabilization agent. In a direct listing on Nasdaq, a lead financial adviser nominated by the firm liaises with the exchange to open the stock for trade, while under NYSE rules, this duty is indirectly carried out through the NYSE’s designated market maker.

Direct listings do not entail a roadshow undertaken by investment banks as in an IPO. In IPOs, underwriter’s aggregate investor interest and develop a book to set the IPO price, but in a direct listing, the price is determined by buy-and-sell orders from individual investors, resulting to greater unpredictability in pricing. In an IPO, the price and the

[29] Pitts, A. J., Bennett, D. S., Mariani, M. E., & Cook, M. R. (2020). Direct Listings: Going Public Without an IPO. REV. OF SEC. & COMMOD. REG., 53, 139-139.

quantity of shares to be offered are fixed before trading starts, with the starting price established by an auction. The IPO price typically leads to a first-day price spike, or a "pop." Conversely, with a direct listing, financial advisors assist create a reference price based on previous private secondary trading, although this serves merely as a suggestion. The opening price is established by buy-and-sell orders, and there's no fixed number of shares to be sold, allowing stockholders to sell immediately into the market without the fear of losing out on a possible "pop."

During the auction on the first day of trade, buyers and sellers alter orders until an equilibrium is established, at which time trading commences. with an IPO, underwriters can stabilize the price using a greenshoe or over-allotment option, but with a direct listing, there's no such mechanism for price stability by investment banks. This lack of an underwritten offering and absence of price stability procedures are among the primary factors that separate direct listings from typical IPOs, potentially contributing to more volatility in direct listing trade.

2.1.5 Advantages[30]

The Shareholder Direct Listing delivers a more simplified and efficient strategy compared to traditional IPOs. It distinguishes out for its quickness, with the SEC clearance process averaging just sixty days, substantially less than the normal IPO timetable. A crucial aspect that adds to this efficiency is the absence of a lock-up period[31], allowing current shareholders to sell their shares instantly. Another advantage of Shareholder Direct Listings is cost-effectiveness. Since there is no conventional underwriter engaged, the job of investment banks is more of a financial counsellor, which includes less obligations and, hence, smaller costs. This decreased function also decreases the investment bank's liability risk under Section 11, thus cutting the overall cost. Moreover, Shareholder DL are thought to give more accurate pricing. Unlike traditional IPOs, where underwriters and issuers establish the price based on commitments from institutional investors, direct listings decide the share price based on buy and sell orders from a larger investor pool through the stock exchange. This strategy is considered to represent a more market-driven pricing, minimising the possibility of

[30] Horton, B. J. (2023). Direct listings and the weakening of investor protections. Florida State University Law Review, 50(2), 279-334.

[31] A lock-up period is a window of time when investors are not able to redeem or sell shares of a certain investment, for an IPO, the lock-up period is usually ninety to one hundred and eighty days.

the short-term price increases commonly observed in IPOs. Lastly, Shareholder Direct Listings are regarded for democratizing investment. They eliminate the layers of intermediaries prominent in traditional IPOs, where major institutional investors generally gain privileged access to shares. In direct listings, any shareholder can immediately sell to any buyer, encouraging a more open and accessible market environment for a larger spectrum of investors. The rising popularity of Shareholder Direct Listings since 2018 highlights these benefits, with a continuous growth in their acceptance across NYSE and Nasdaq. This trend shows a drive towards more efficient, cost-effective, and inclusive options for firms to go public.

2.1.6 Controversies[32]

While the permission for Shareholder Direct Listings in 2018 was largely uncontroversial, the SEC's 2020 approval of Primary Direct Listings stirred considerable discussion. This debate came from the belief that Primary Direct Listings may possibly sidestep key investor safeguards. Critics, notably the Council of Institutional Investors (CII) and the American Securities Association (ASA), highlighted worries about the consequences for investor protections, including the responsibility under Section 11[33] of the Securities Act of 1933. These complaints centred on the possibility for Direct Listings to reduce the responsibility for issuers and advisors for serious misstatements or omissions, so weakening investor safeguards.

Despite these reservations, the SEC first approved Primary Direct Listings in August 2020. The CII filed a Petition for Review shortly after, citing the SEC's acceptance of a system that might dissuade claims under Section 11. However, the SEC renewed its clearance in December 2020.

Problems refers to the absence of a traditional underwriter as a gatekeeper to the public markets, potentially leading to troubled companies being offered to the public at inflated valuations, and the weakening of Section 11 of the Securities Act, which could reduce the likelihood of harmed investors recovering damages, there is also a possible hazards of Direct Listings, which lack the conventional underwriter scrutiny included in Initial

[32] Horton, B. J. (2023). Direct listings and the weakening of investor protections. Florida State University Law Review, 50(2), 279-334.

[33] Section 11 provides that issuers, underwriters, officers and director of the issuer, and any other expert who helped prepare the registration statement (e.g. accountants, lawyers) are strictly liable for any misrepresentation or omission of material information, i.e. securities fraud, in their registration statement.

Public Offerings (IPOs). This absence might possibly result in distressed enterprises being sold to the public at inflated values. In a typical IPO, underwriters play a significant role in performing merit evaluations, guaranteeing the quality of both the firm and the securities being issued. This method serves as a protective tool for investors against potentially dangerous or inflated products. The Securities Act does not force the SEC to conduct merit evaluations of offers, instead it depends on underwriters to execute this job. Direct Listings, which don't include traditional underwriters, pose two key obstacles to investor protection under Section 11 of the Securities Act. First, there's a tracing requirement issue. In Direct Listings, both registered and unregistered shares are sold simultaneously, making it impossible for investors to track their acquired shares back to the individual registration statement in question. This tracing requirement is critical for establishing standing to suit under Section 11.

Second, the lack of an underwriter in Direct Listings raises issues about who, if anybody, performs the underwriter's duty in undertaking the requisite due diligence and review. Financial advisers, who take on a role in DL, are unlikely to be deemed statutory underwriters under the Securities Act.

While financial advisers in Direct Listings could do some due diligence, this is not a replacement for the usual underwriter review. Consequently, this circumstance might lead to firms coming public at inflated valuations, or with risks not sufficiently disclosed, possibly injuring investors who lack the customary safeguards afforded in an IPO.

2.2 SPAC

A special purpose acquisition company (SPAC) is a company without commercial activities and is founded purely to generate cash through an initial public offering (IPO) for the purpose of acquiring or merging with an existing firm.[34]

SPACs suggesting parallels with blank check businesses of the 1980s, these firms were characterised by the SEC as development stage companies with no specified business strategy, typically employed in fraudulent operations inside the penny stock market. To

[34] Young, J. (2023, December 17). Special Purpose Acquisition Company (SPAC) Explained: Examples and Risks. Investopedia.

address these fraudulent tactics and restore investor trust, Congress in 1990 forced the SEC to impose severe disclosure and management rules for such businesses, resulting to their near demise. However, SPACs have evolved as modern equivalents of these blank check firms. They have similar features in that they have no operating experience, assets, revenue, or activities, and primarily aim to raise cash in public equity markets. The crucial distinction is that, unlike the 1980s blank check firms, SPACs are not subject to the same severe rules and are governed similarly to ordinary public offerings.

2.2.1 Background[35]

The 1980s saw a major development in the securities markets, coupled by a rise in fraud, notably in the penny stock market. Blank check firms were common in this era, characterized by a lack of precise business goals and sometimes employed in fraudulent schemes. In response to these arise of these fraudulent firms, the 1990 Securities Enforcement Remedies and Penny Stock Reform Act established harsh controls on these businesses, contributing to their downfall. Despite the fall of blank check firms, SPACs evolved as a contemporary variation, first exempt from the strict regulations of the 1990 Act but voluntarily adopting many of its protective measures. These early SPACs attempted to provide a safer investment vehicle, frequently targeting certain sectors or areas, and supervised by respectable figures. The return of SPACs in recent years is distinguished by a major increase in the number and magnitude of IPOs, with prominent investment banks participating and varied industries being targeted.

SPACs, unlike to blank check corporations, operate with extra investor safeguards, such escrow accounts, and rights of rescission. This listing method have become a popular alternative for smaller firms seeking public finance, especially when traditional IPO markets are less accessible.

2.2.2 Structure[36]

Special Purpose Acquisition enterprises are basically publicly listed buyout firms, founded with the sole objective of acquiring cash through public offerings to purchase existing private enterprises. Initially, these firms are held by a small group of investors, often comprising the management team, who are responsible for promoting the SPAC to

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[35] Riemer, D. S. (2007). Special purpose acquisition companies: spac and span, or blank check redux. Washington University Law Review , 85(4), 931-968.
[36] Riemer, D. S. (2007). Special purpose acquisition companies: spac and span, or blank check redux. Washington University Law Review , 85(4), 931-968.

other investors and locating a suitable business for acquisition. The procedure for a SPAC begins with filing a registration statement with the SEC (form S-1), which contains specifics of the offering and the targeted industry for future mergers or acquisitions. This statement is evaluated thoroughly by the SEC, particularly to guarantee compliance with requirements, such as avoiding pre-IPO talks with target firms, which necessitates disclosure in the registration statement. SPACs generally sell IPO units valued between six to ten dollars, containing shares of common stock and warrants for additional stock acquisition. After the IPO, these units trade as a single entity for a specific period, generally 90 days, before the common stock and warrants can be traded individually. The management team's principal responsibility in a SPAC is to find and effectively combine with a target firm, they hunt for companies large enough to be viable as public corporations but not so huge as to attract private equity firms or go public on their own. Once a target is chosen, the merger proposal is presented to investors for approval. Investors who do not approve of the merger might get their money reimbursed as per the SPAC's organizational papers. SPACs give investor protections comparable to those in Rule 419 regulated blank check offers, like structures and clauses pertaining to escrow of money, trading of issued securities, the exercise of warrants, rights of rescission, deadlines for business combinations, and the release of cash.

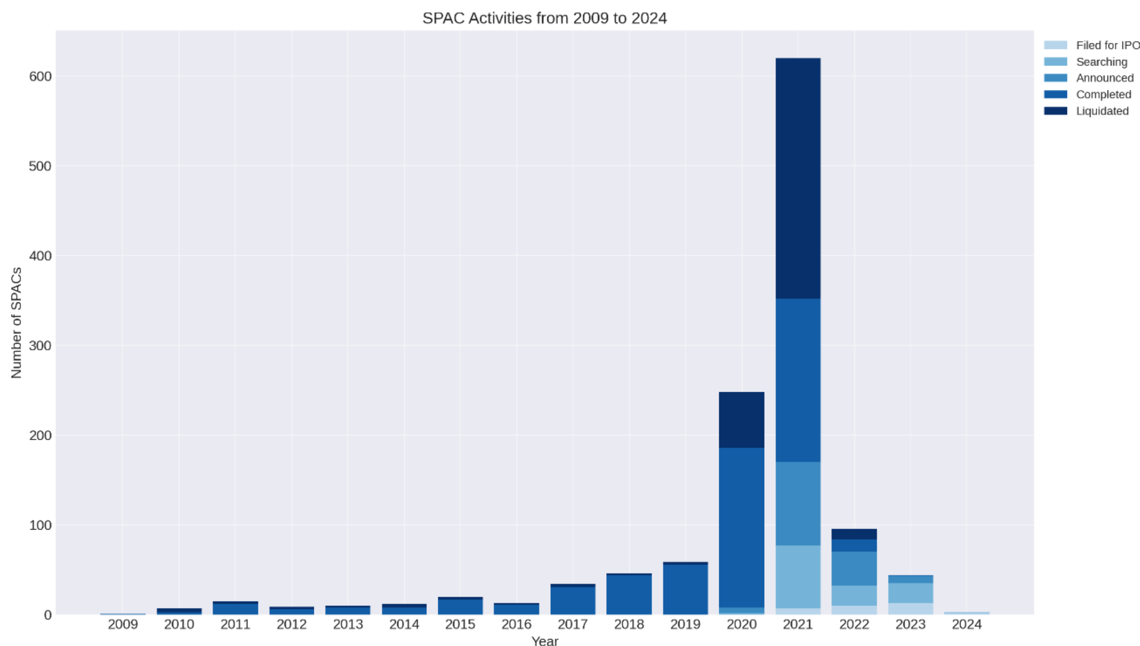
2.2.3 SPAC Market

In the last twenty years Special Purpose Acquisition Companies (SPACs) have emerged as a tool for public listings and acquisitions. The graph below presents picture of SPAC operations extending from 2009 to 2024, for a total of SPAC 1237[37], focusing on the trends in filings for Initial Public Offerings (IPOs), looking for acquisition targets, announcements of acquisitions, completions of acquisitions, and liquidations. It appears clear that while in the first years after the 2008 crisis this tool was little used, it slowly began to attract the interest of various companies and in the last 5 years the use has been exponential with a peak of over 600 SPACs in 2021. By 2022 and 2023, the graph illustrates a normalization of SPAC activity, with a visible reduction in new filings and an increasing focus on the execution of already announced acquisitions. This pattern

[37] Source: spacinsider.com

demonstrates the market's adjustment to the SPAC phenomena, balancing the early exuberance with a more cautious attitude towards SPAC-led transactions.

Figure 2.1 SPAC Activities[38]

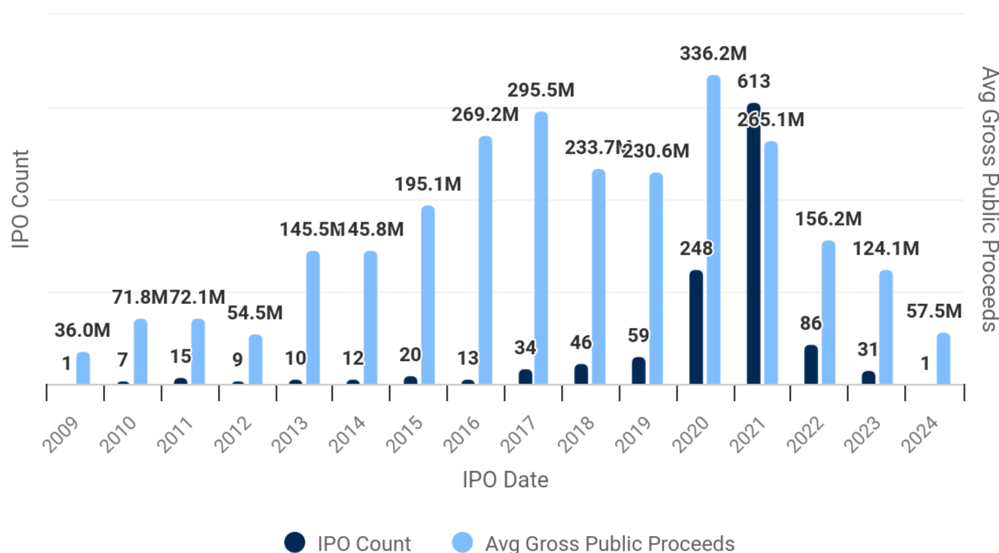


It is possible to analyse two separate metrics related to the following chart, the count of IPOs and the average gross public profits from these IPOs for the same years as before. In 2009, the chart opens with a very low number of IPOs, only one, with proceeds of $36 million. As we move forward in time, there's a rise in both the number of IPOs and the proceeds, with noteworthy peaks around 2014 and again in 2020 and 2021. In 2021, we touched the highest point on the chart with a total of 613 IPOs and average proceeds totalling to $336.2 million. However, post-2021 there's a big reduction, such oscillations might be attributable to several variables like economic cycles, market confidence, regulatory changes, or sector-specific challenges. For instance, a high in IPO activity frequently coincides with a bullish market environment when corporations and investors are confident about the future. Conversely, a fall can imply market uncertainty, tougher restrictions, or even a market correction. It's important to note that the chart's data points are averages, and therefore don't give the precision needed to understand the distribution

[38] Python graphics processing, source: spacinsider.com

of proceeds among different IPOs. Some years could have a few major IPOs that greatly boost the average proceeds, while others might have a high number of lesser offerings. It is important also to note that the years that precede the peak have a high value of Gross Public Proceeds, a figure that could not be deduced from the previous graph which only showed the number of SPAC.

Table 2.2 Comparative Analysis of IPO Count and Average Gross Public Proceeds[39]



2.2.4 Cash-shell companies and their challenges[40]

Information asymmetry occurs when there is an unequal distribution of information among players in a market where those without knowledge may unknowingly select goods or securities of poorer quality. This issue is especially troublesome in capital markets, since it can give rise to adverse selection, wherein the absence of knowledge can lead to the trading of only "bad securities," thereby causing market inefficiencies and raising negotiation costs. In order to address this issue, efficient capital markets strive to safeguard investors by enforcing corporate transparency requirements, thereby enabling a more knowledgeable decision-making process. When evaluating SPACs, which are cash-shell companies lacking financial history, the inherent absence of

[39] Source: spacinsider.com

[40] D'Alvia, D. (2014, January 1). *SPAC: A Comparative Study Under US, Asia and Italian Corporate Framework. Soft Law vs. Hard Law.* Social Science Research Network. https://doi.org/10.2139/ssrn.2476867

information presents a hurdle for investors seeking to gauge the investment risk. The main benefit of a Special Purpose Acquisition firm (SPAC) lies in its management, whose knowledge is important for the effective implementation of future firm mergers. In order to resolve the imbalance of information, Special Purpose Acquisition Companies (SPACs) commonly make Initial Public Offering (IPO) units consisting of warrants and common shares. This technique efficiently conveys the true worth of the firm and the amount of investment risk to potential investors. Regarding moral hazard and agency costs, there is a possible misalignment of interests between SPAC managers and investors that can lead to management activities that do not favour investors, a scenario that can be eased by governance measures like warrant issue. These warrants serve as a sort of performance-based controlled financing, allowing shareholders to oversee management and aligning the latter's interests with those of the shareholders by ensuring they focus on attractive business combinations. Additionally, management incentives in SPACs, such as the opportunity to acquire shares, further align their efforts with investor interests and lessen the dangers associated with information asymmetry.

2.3 Reverse Mergers

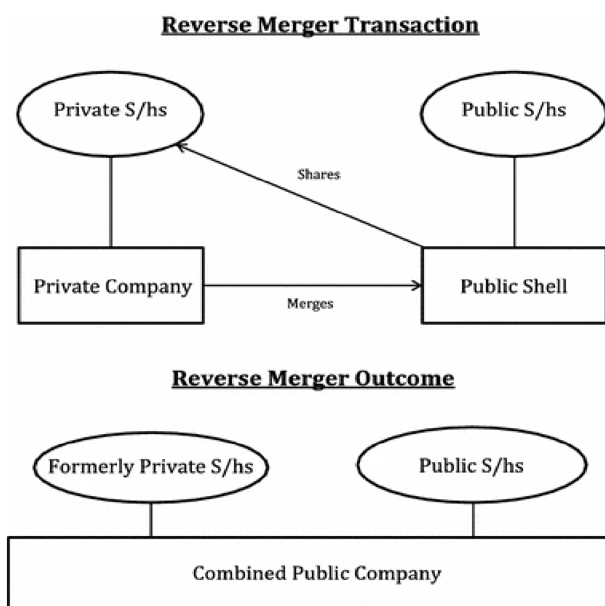
A Reverse Merger is a transaction in which a private firm’s owners obtain control of a public company (a shell) by merging it with their private company. The owners of the private firm obtain majority of the shares of the shell (more than 50%) and control of the shell’s board of directors. The transaction can be completed in as little as 3 months, and the private firm subsequently becomes a public corporation. Reverse Mergers offer the same benefits as IPOs but at a lower cost, for this reason they could become the more popular choice among small/medium companies, but it is also necessary to highlight that RMs are associated with issue like attracting lower-performing companies.[41]

[41] Adjei, F., Cyree, K. B., & Walker, M. M. (2007, October 11). *The determinants and survival of reverse mergers vs IPOs*. Journal of Economics and Finance. https://doi.org/10.1007/s12197-007-9012-4

2.3.1 Process[42]

In the reverse merger transaction, the public shell company is the legal and acquirer and the accounting acquiree, whereas the private operational firm is the legal acquiree and accounting acquirer. The private company's stockholders receive a substantial number of shares in the public shell, assuring they obtain controlling ownership post-merger. Shares offered in these transactions frequently gain an exemption from registration under Rule 506 of Regulation D[43], which demands investors to be accredited or fulfil specific sophistication standards. Post-acquisition, the financial statements of the consolidated firm are basically a continuation of the private company's financials, with comparable historical financial statements matching those of the private (accounting acquirer) company. The financial statements must account for the assets, liabilities, retained profits, and ownership structure of both the accounting and legal acquirers to appropriately depict the post-combination firm.

Figure 22.3 Reverse Merger Process[44]



[42] Pollard, T. (2015, February 14). *Sneaking in the back door? An evaluation of reverse mergers and IPOs*. Review of Quantitative Finance and Accounting. https://doi.org/10.1007/s11156-015-0502-8

[43] Rule 506 is a Securities and Exchange Commission (SEC) regulation that allows private placement under Regulation D and enables issuers to offer an unlimited amount in securities.

[44] Source: Pollard, T. (2015, February 14). *Sneaking in the back door? An evaluation of reverse mergers and IPOs*. Review of Quantitative Finance and Accounting. https://doi.org/10.1007/s11156-015-0502-8

2.3.2 Regulations, Reasons, and Outcomes[45]

Reverse mergers have been a technique for private corporations to go public since the 1950s but have garnered less scholarly attention. They are famous for their low cost, with corporations able to go public through a reverse merger for as low as $50,000, and their rapid procedure. This makes RMs particularly appealing to small enterprises. RMs are substantially less expensive than IPOs so RMs may be utilised by enterprises that might not yet be ready for the demands of public listing, such as frequent audits and enhanced transparency. However, these corporations stand a higher chance of being delisted soon after going public, with over 32% of reverse merged firms being delisted within three years according to Arellano-Ostoa and Brusco (2002). In contrast, IPOs relate to a more thorough vetting procedure by underwriters and the SEC, which lessens the "lemons problem" and supports aftermarket survival through underwriter stability. This approach assists IPO corporations to raise more money, boost liquidity, and have a longer market presence. Studies referenced include Hensler et al. (1997), which found a 25% delisting rate for IPOs over five years, and Gleason et al. (2005), who observed low post-event profitability and a 54% failure probability for reverse takeovers within two years. A problem that concerns firm that chose the path of RM is the difficult to satisfy initial listing requirements, suggesting these firms use RMs as a workaround. For that reason, low-quality firms leaning towards RMs and high-quality firms preferring IPOs. This leads to the hypothesis that firms opting for RMs might not meet the initial listing criteria of the exchanges they aim to list on, especially considering they often list on less prestigious exchanges than NASDAQ and face less liquidity improvement due to their "tainted" reputation.

High underwriting fees and the substantial fixed costs associated with going public via IPOs are prohibitive for these firms, suggesting that RMs offer a more viable path to public markets due to lower costs. So, the inherent economies of scale in IPO processes make RMs more attractive to smaller and younger firms. Additionally, the performance of private firms is considered a determinant for choosing RMs. High growth and profitable firms are likely to seek public capital to fund valuable growth opportunities,

[45] Adjei, F., Cyree, K. B., & Walker, M. M. (2007, October 11). *The determinants and survival of reverse mergers vs IPOs*. Journal of Economics and Finance. https://doi.org/10.1007/s12197-007-9012-4

potentially making them more attractive to underwriters. Conversely, poorly performing firms might find RMs as their only option to access public markets, although this could perpetuate a "lemons problem" in the RM market.

Lastly, the survival of firms post-RM is contrasted with those going public through IPOs. Unlike IPOs, which benefit from underwriter support in the aftermarket, RMs lack such backing, potentially impacting their survivability. The hypothesis is that firm who uses IPO usually have a longer aftermarket lifetime than RM firms due to the additional support that the firsts receive.

2.4 Crowdfunding

We can define the crowdfunding as the use of small amounts of capital from a large number of individuals to finance new business ideas, utilising social media and crowdfunding platforms to link investors with entrepreneurs. This technique has the potential to boost entrepreneurship by widening the investment pool beyond traditional financiers such as family, friends, and venture capitalists.[46] The financial crisis of 2008 reduced the banking industry's willingness to lend, as well as the public's faith in banks. This situation, along with the rise of digital technology and financial innovation, stimulated the development of crowdsourcing as an alternative fundraising method. Crowdfunding employs online platforms to link project ideas with a large audience eager to invest modest sums of money, enabling a more specialised and flexible financing alternative for startups and small and medium-sized organisations (SMEs) compared to the conventional services of banks. This strategy has democratized project funding, enabling managers, entrepreneurs, and project initiators to seek cash simply and economically from possible supporters online. Crowdfunding is identified as one of the significant financial developments in recent years, alongside benefit companies and social impact bonds, with all three sharing an emphasis on helping society, community, and the crowd.[47]

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[46] Smith, T. (2023, October 6). *Crowdfunding: What It Is, How It Works, and Popular Websites*. Investopedia. https://www.investopedia.com/terms/c/crowdfunding.asp

[47] Kuti, M., Bedő, Z., & Geiszl, D. (2017). Equity-based Crowdfunding. *Hitelintézeti Szemle*, *16*(4), 187–200. https://doi.org/10.25201/fer.16.4.187200

2.4.1 Forms of Crowdfunding[48]

Crowdfunding comprises multiple models: equity-based, credit-based (including peer-to-peer and peer-to-business lending), donation-based, and reward-based crowdfunding, each providing to distinct purposes and motives. Equity-based crowdfunding allows investors to purchase shares in firms online, giving a fresh outlet for enterprises that would not collect cash through traditional means. Credit-based crowdfunding permits loans directly between individuals or to enterprises without intermediaries, albeit it poses higher risks. Donation-based crowdfunding supports initiatives without expecting financial returns, driven by charity, whereas reward-based crowdfunding gives concrete benefits or items in exchange for financial assistance.

Crowdfunding platforms have democratized access to money, employing digital technology to connect project initiators with a large pool of possible supporters. Unlike traditional fundraising techniques, crowdsourcing allows for more individualised initiatives and direct contact between donors and entrepreneurs. The sector has witnessed fast expansion, with billions raised across numerous platforms internationally, showing its expanding relevance in the finance industry. However, this expansion differs by location and culture, with different regions embracing and adapting crowdfunding to their specific settings and issues.

2.4.2 Actors, Incentives and Disincentives[49]

The key actors of Crowdfunding are creators, funders, and platforms.

For creators the incentives of use crowdfunding are a lower cost of capital and more information. In fact, crowdfunding may offer creators access to capital at a lower cost than traditional sources for three reasons: global access to funders, the ability to bundle equity with other rewards, and the generation of valuable information that may lower capital costs. Crowdfunding can also serve as market research, providing creators with valuable feedback on their product or business plan from potential users and investors,

[48] Kuti, M., Bedő, Z., & Geiszl, D. (2017). Equity-based Crowdfunding. *Hitelintézeti Szemle*, *16*(4), 187–200. https://doi.org/10.25201/fer.16.4.187200

[49] Agrawal, A., Catalini, C., & Goldfarb, A. (2014, January). Some Simple Economics of Crowdfunding. *Innovation Policy and the Economy*, *14*, 63–97. https://doi.org/10.1086/674021

thus reducing the variance of post-launch demand and facilitating the early development of a product ecosystem. On the other hand, there are several disincentives for them such as disclosure requirements, opportunity cost, investor management and unorthodox capital table. For the first one crowdfunding involves public disclosure of ideas, creating dangers of copycat and potentially impacting intellectual property rights and discussions with suppliers. Opting for crowdfunding over conventional investors like angel investors and VCs could result in missing out on extra value such as industry expertise, contacts, and prestige. The management problem regard dealing with a big and varied collection of small investors and that may be costly and time-consuming, especially if the project experiences delays or fails to fulfil expectations. Last Equity crowdfunding could result in a cap table that's difficult to administer or unattractive to follow-on investors, while some platforms aim to alleviate this through investment pooling mechanisms.

The incentives provided to funders in crowdsourcing are diverse and include the ability to access investment possibilities, especially in equity crowdfunding, which allows regular investors to join in early-stage businesses. Many individuals are attracted to the prospect of obtaining early access to novel items, appreciating the opportunity to endorse pioneering enterprises from their inception. Crowdfunding's allure lies in its ability to foster community engagement, allowing donors to directly interact with artists and get fully immersed in the entrepreneurial journey. Philanthropy also has a notable impact, since many benefactors are driven by the aspiration to endorse enterprises, they have faith in, without anticipating visible reciprocation. Crowdfunding facilitates the organised collection of financial contributions from relatives and acquaintances, efficiently managing the advantages and disadvantages linked to social connections. However, founders encounter many disincentives. Creator incompetence is a worry, with funders' optimism sometimes conflicting with the reality of delayed or failing initiatives owing to the creators' lack of expertise. The crowdfunding ecosystem, which is marked by little regulation, is vulnerable to fraudulent activities. The risk is increased by the tiny individual donations and a widespread lack of willingness among funders to carry out comprehensive due diligence. Moreover, the inherent uncertainty of initiatives in their early stages, along with the unequal distribution of information between creators and funders, increases the perceived level of investment risk. The intricate

crowdfunding environment is shaped by these elements, wherein the possibilities for innovation and community involvement must be carefully balanced with the associated dangers of taking part.

Crowdfunding platforms, which are largely for-profit organisations, make money from transaction fees from successful projects, often charging 4-5% of the entire raised amount. Their fundamental objective is to maximize the quantity and scope of successful initiatives, demanding the growth of a broad and active community of both investors and creators. To do this, platforms focus on recruiting high-quality initiatives, avoiding fraud, and assuring effective coupling of innovative ideas with cash. This entails boosting transparency and streamlining the search and discovery process for funders. Additionally, platforms attempt to promote projects that attract considerable media attention, so not only extending their user base but also permitting development into other market sectors, further amplifying the network effects that lead to their growth and success.

2.5 Private Placement

A private placement is a sale of stock shares or bonds to pre-selected individuals and institutions rather than openly on the open market. It is an alternative to an initial public offering (IPO) for a company wanting to generate funds for expansion. Private placements are governed by the U.S. Securities and Exchange Commission under Regulation D. Usually, the investors that are invited to participate in in private placement programs are rich individual investors, banks and other financial institutions, mutual funds, insurance companies, and pension funds.[50] These investor aim to finance companies for a medium to long term with the goal to have a capital gain from their investment, for that reason they focus on companies with high growth prospects.

[50] Ganti, A. (2023, August 1). *Private Placements: Definition, Example, Pros and Cons*. Investopedia. https://www.investopedia.com/terms/p/privateplacement.asp

2.5.1 Reason for Private Placement

Companies decide to fund themselves through a private placement, instead of an IPO, or instead of issuing bonds or taking out a loan for a variety of reasons. These may include the chance to combine raising funds, key for executing on creative and possibly highly profitable ideas, with founding a new business structure and corporate governance and increased skills inside the firm. The necessity to protect oneself against the volatile market that is one of the main reasons why going public is so risky in the first place. The idea of how it might keep lower costs than an IPO subscription or the bank loans agency fees related is another important reason to use private placement. The desire to finishing the financing operation within a reduced time, approximately a month on average and escape the strict terms of the stock market, such as having to release sensitive info. Still in decision-making, other aspects are worth considering as they may make together a well-founded preference for less competitive sectors. In private placement there is also a reduction of the informational gap between insiders and investors, as the active presence of the investor in management certainly allows to have access to more information. It has been found that companies that realise private placements, especially those who have done so first and recently, are able to benefit from strategic rent, notably capacity both financial and commercial collaborations and for research, leveraging the knowledge of new partners.

2.5.2 Process [51]

The period for completing a private placement will vary dependent on the size and credit profile of each issuer but we have also to consider the individual private placement lender, however, it normally takes 6-8 weeks to complete the initial transaction. The first phase is the deal launch, commences the window of time from which the issue is presented to investors, to when a decision must be taken, and it last generally from 1 to 3 weeks. Next, we have the negotiations phase that start with a conversation between the issuer and the investor on specific of the transaction, this phase will last during all the process. During the information gathering stage, the

[51] *How to Complete a Private Placement - Prudential Private Capital*. (n.d.). https://www.prudentialprivatecapital.com/perspectives/how-to-complete-a-private-placement

investor will do their due diligence on the firm, so he will look at company's financial statements, schedule meeting with the management team, assessing the market position but also made an industry or a sector analysis. Then, the investor will decrete a credit rating for the firm providing the private placement, which represents how capable the issuer is of paying interest and principal payments. This technique is comparable to how rating organisations generate ratings for public bond issuers. After these steps, an investor may assess how much risk they feel is connected with contributing cash to the company. Generally, the larger the risk, the lower the quality rating. Next, during the Pricing stage, the investor estimates what interest rate is needed to compensate for the associated risk. Private placements are priced similarly to public securities, where pricing is often set by adding a credit risk premium (or spread) to the matching U.S. Treasury rate. After a phase of negotiation and both corporation and the investor agree to a spread, they go to the Rate Lock phase. This is when the private placement investor and the company agree to lock-in the interest rate (or coupon) based on the agreed upon spread and the prevailing U.S. Treasury rate at a specified day and time. Closing stage is the legal exchange during which the actual transfer takes place between the corporation and the lender; the issuer transfers the security that was provided to the investor in exchange for the capital the investor committed to pay for it. The procedures to closure very much match the process for getting a line of credit with banks.

2.5.3 Placement Agents[52]

There are several ways for a company to obtain private cash. One option is to work with an advisory firm to assist them approach the ultimate investor directly. Often, especially firm that aim to raise a good amount of capital, they used a placement agent. This person can provide significant benefit for the firm. Placement agents have an extensive network of institutional investor and pension funds, they also have a deep knowledge of the market condition and trends, so they can advise when to raise new capital. Their primary task is to facilitate the raising of capital thanks to their network, but placement agents also support the firm by helping to craft engaging stories about how the funds

[52] Cain, M. D., McKeon, S. B., & Solomon, S. D. (2019, May 15). *Intermediation in Private Equity: The Role of Placement Agents*. Journal of Financial and Quantitative Analysis. https://doi.org/10.1017/s0022109019000371

being raised will be used, creating marketing collateral, setting up meetings with possible investors, and handling information requests and due diligence procedures. These types of services are particularly beneficial to newer and less experienced general partners who do not have the resources or network to conduct these areas of fundraising alone. The study of (Cain et al., 2019) that focus on the period between 1991 and 2006 examines funds returns and analyse the impact of placement agents. Fees charges for their services are typically around 2% of the capital they help to raise for the fund. The general partners initially bear these expenses, but they are ultimately balanced against the management fees earned from the fund. This ensures that the limited partners who participate in the fund are not directly affected by these fees. Certain agents choose to receive a portion of their fee in cash and allocate the remaining amount towards the fund. This approach ensures that the agent's interests are in line with those of the fund investors, while also decreasing the initial cash commitment required by the fund. The role of the placement agent is important especially during period of decreased capital inflows into private equity, so they have a critical role to ensure capital raise thanks to their network. However, it also points out that the presence of placement agencies does not mechanically influence the returns on investments for limited partners.

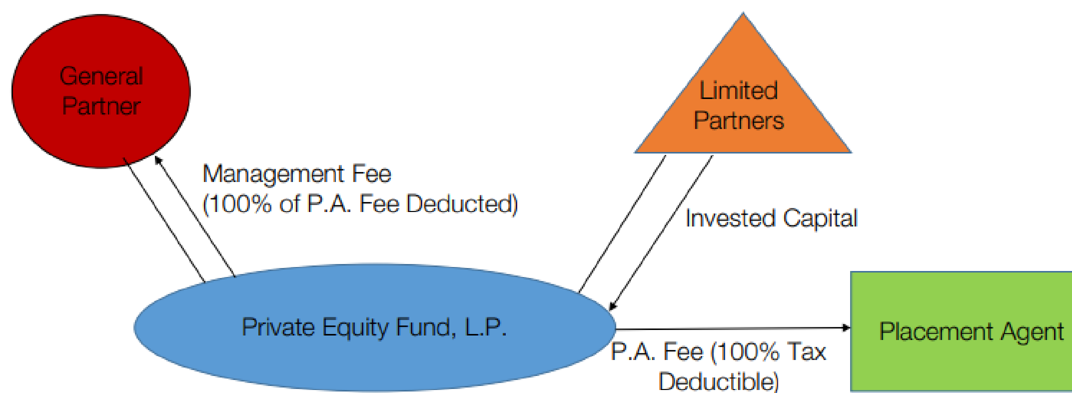
2.5.4 Limited Partners and General partners[53]

After analysing the role of placement agents, it is also possible to examines the other two players in the private placement market. Each of these entities plays a crucial role in determining the landscape of fundraising. In the list of limited partners, we can distinguish between pensions funds, endowments, and foundations, their role is to supply the cash required for private equity firms. They are continuously vigilant for investment possibilities that offer the highest profits. The problem faced by these investors involves addressing information asymmetries and accurately assessing the quality of funds in advance. Placement agents provide limited partners with a certification of high-quality funds, which helps to lower search costs and address information shortages, making them a useful tool. Then we have General Partners, who are at the forefront of managing private equity funds, try to efficiently raise cash and put

[53] Cain, M. D., McKeon, S. B., & Solomon, S. D. (2019, May 15). *Intermediation in Private Equity: The Role of Placement Agents*. Journal of Financial and Quantitative Analysis. https://doi.org/10.1017/s0022109019000371

it into companies with high return potential. Placement agents play a significant function for general partners by serving as a connection to a broader network of possible limited partners. This partnership may greatly boost a fund's credibility and improve its prospects of successful fundraising, utilising the placement agents' reputational capital to the fund's benefit.

Figure 2.4 Connection among the general partner, limited partners, and placement agent for a typical private equity fund-raising. [54]



The figure better highlight the financial connection and flow of fees between general partners (GPs), limited partners (LPs), and placement agents within a private equity fund structure. Limited partners contribute their cash into the fund, which is subsequently managed by the general partners. Placement agents earn a fee for the money they help to generate, and this charge is totally tax-deductible. The charge paid to the placement agency is ultimately borne by the general partners, as it is subtracted from the management fee that the general partners would otherwise receive. This structure guarantees that the placement agent's fee does not immediately diminish the investment returns of the limited partners. This fee scheme has numerous ramifications for the parties. For general partners, it aligns their interests with those of the limited partners, as shown in the chart their income is connected to the successful raising of money and subsequent administration of the fund. For placement agencies instead the

[54] Cain, M. D., McKeon, S. B., & Solomon, S. D. (2019, May 15). *Intermediation in Private Equity: The Role of Placement Agents*. Journal of Financial and Quantitative Analysis. https://doi.org/10.1017/s0022109019000371

arrangement is an incentivizes to effectively raise as much cash as possible, as their fee is a direct consequence of their fundraising success. Finally, for limited partners, the structure gives some guarantee that their profits will not be directly decreased by the costs of using a placement agency, thereby protecting the integrity of their investment, thanks to this scheme it is possible to balance the interests of all parties involved. The general partners administer the fund and investments, the limited partners provide the funds, and the placement agents assist the capital raising process. The fee structure guarantees that placement agents are reimbursed for their services without unduly compromising the returns of the limited partners, hence ensuring an efficient and productive private equity marketplace.

3 KPIs

Key Performance Indicators are a key metric for assessing the effectiveness and the impact of each of the presented listing methods. Companies, investors, and analysts can assess the effectiveness and strategic compatibility of various listing techniques with the use of these KPIs.

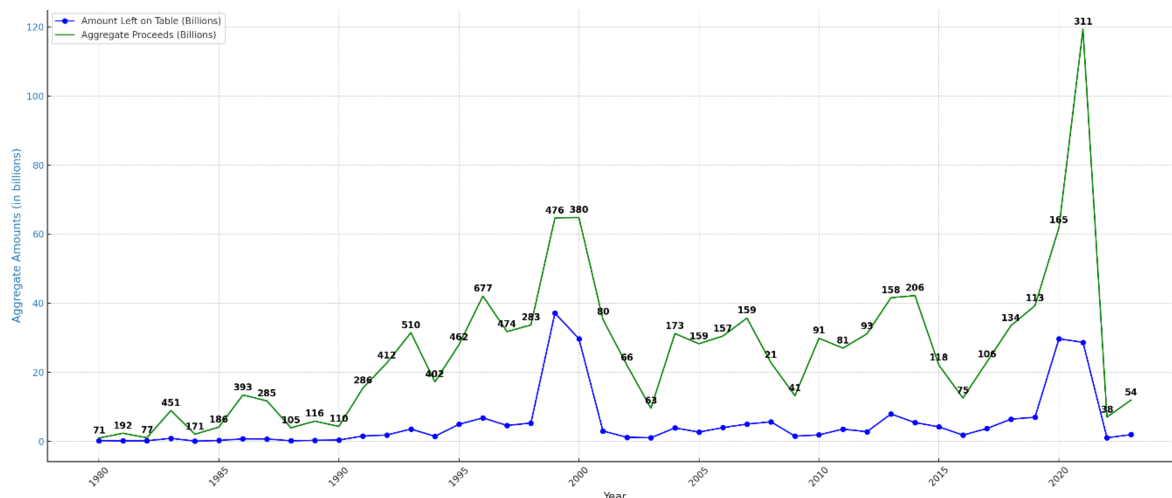
3.1 Capital Raised

The first performance measure that will be analyse quantity of capital raised. Of course, during the years, the IPO procedure is the approach with the biggest amount raised compared to the listing alternatives. For this listing approach, there are larger data, in particular from the focus are from 1980 to 2023, this list only includes firm that went public in the U.S and excludes several types of offerings and stocks not listed on major exchanges like Nasdaq or the NYSE and others specified in the note 55 under the chart. Meanwhile, for the examination of the next methods, the analysis will be smaller also because most of them are considerably more recent than IPOs.

The analysis focuses on the total funds raised through the IPO which can be a parameter to measure the financial resources available to the company for growth, debt repayment or also for others corporate purposes. The Graph below segmented into two axes, where the y-axis denotes financial values in billions of dollars and the x-axis indicates the years. The annual count of initial public offerings (IPOs) is added on top of the IPO proceeds line for each year, to make it clearer the relationship between the IPO volume and the plotted financial measures. The green line just mentioned depicts the cumulative funds generated from initial public offerings (IPOs), illustrating the total amount of cash obtained by firms entering the stock market in a specific year. This line displays great jumps in some periods, with major peaks during the late 1990s, early 2000s, and again in the 2020s, trends also analysed in the previous chapter, where these peaks correspond to periods of notable technical advancement and market liquidity. The blue line depicts the cumulative amount remaining on the table, which signifies the potential income that might have been obtained by issuers but was instead relinquished to investors as a result of underpricing the IPO shares. This metric is quite important because it offers valuable insights into the dynamics of IPO pricing. It indicates periods of substantial investor optimism, as evidenced by higher values that suggest a larger amount of money being left on the table. This trend is particularly notable in years such as 1999 and 2020,

which coincide with the dot-com bubble and the surge in tech IPOs during the COVID-19 pandemic, respectively. The nominal value raised also increased as the number of IPOs and financial performance increased over the years.

Figure 3.1: IPO CAPITAL RAISED[55]



The chart not only serves as a historical record but also be considered as an analytical tool, revealing insights into market psychology, regulatory consequences, technology effects on finance, and worldwide economic influences on the IPO market. For instance, years with fewer IPOs but high aggregate proceeds can imply a market favouring larger, more established firms over smaller entrants, or a cautious market mentality where only the most promising companies opt to go public.

Alternatively, only companies that utilise a Direct Listing with a Capital Raise (DLCR) have expressed interest in raising capital. For instance, Spotify chose to sell their existing shares rather than issuing new ones. As previously discussed in the document, DLCR is a relatively new listing method, and only a limited number of companies have chosen to pursue it. Consequently, the available data on DLCR is limited. For the capital raised in SPACs, instead, it is possible to refer to Table 3.2 (Comparative Analysis of IPO Count and Average Gross Public Proceeds) in the previous chapter.

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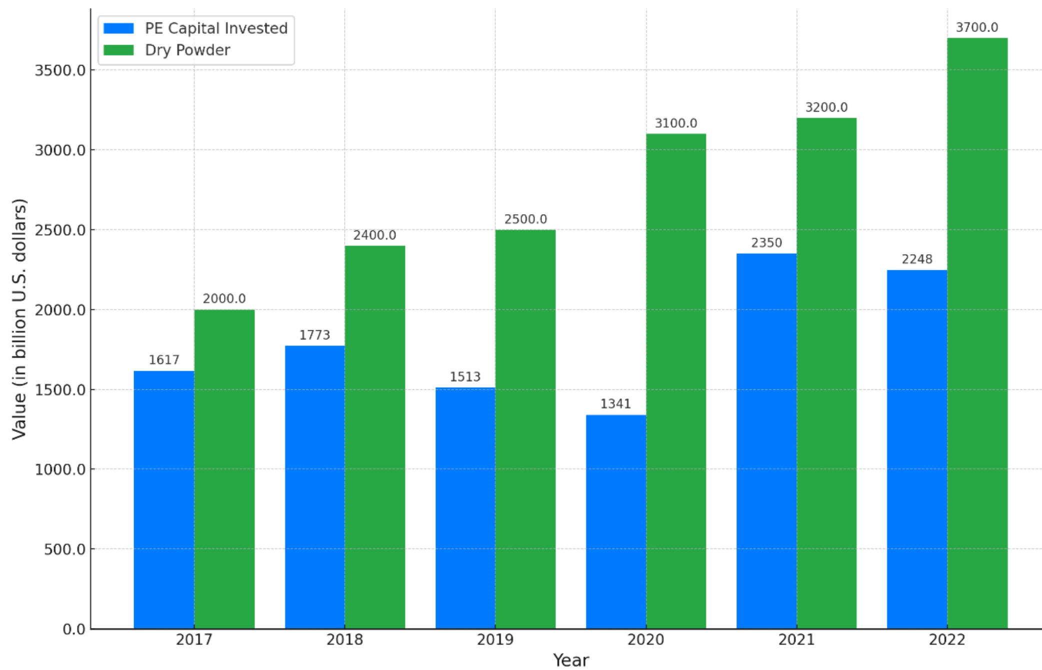
[55] Python graphics processing, Source: Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice February 2, 2024
The sample are IPOs with an offer price of at least $5.00, excluding ADRs, unit offers, closed-end funds, REITs, natural resource limited partnerships, small best efforts offers, banks and S&Ls, and stocks not listed on CRSP (CRSP includes Amex, NYSE, and NASDAQ stocks). Proceeds exclude overallotment options. The amount of money left on the table is defined as the closing market price on the first day of trading minus the offer price, multiplied by the shares offered.

Figure 3.2: Private Equity Capital Invested and Dry Powder (2017-2022)[56]



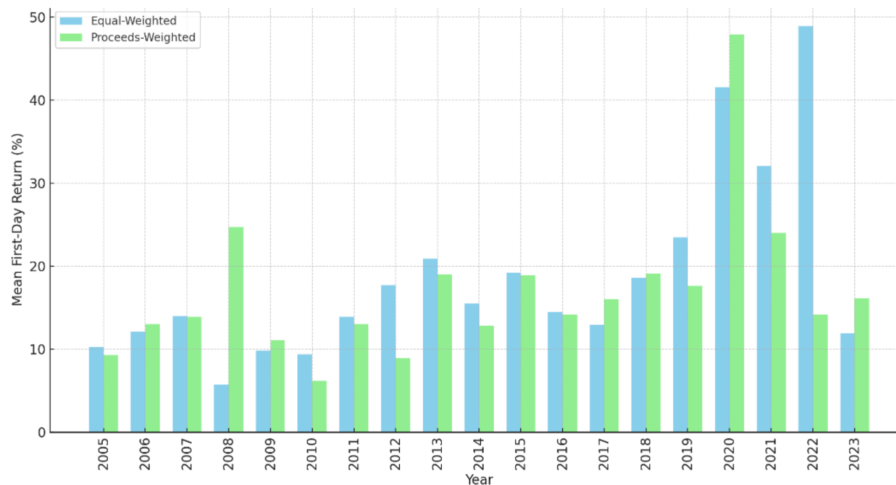
For private placement we can refer to the value of capital invested by private equity firms, in the previous chart there are displayed the capital invested and the dry powder, this indicator describes the capital that a corporation has committed to investing but has not yet allocated. The graph illustrates the trend of private placement money raised over the years. As mentioned, the analyse cover the years from 2017 to 2022, on the first year it began at $1.617 trillion and rose to $1.773 trillion in 2018, the upward trend was stopped by the pandemic so there was a decline to $1.341 trillion in 2020. In 2021 instead, the trend changes again and there was a significant resurgence reaching a record-breaking $2.350 trillion, before seeing a tiny decline to $2.248 trillion in 2022, this suggests that investment levels may go back to more typical standards. Simultaneously, the amount of unused money, often known as dry powder, increased during this period from $2 trillion in 2017 to a peak of $3.7 trillion by 2022. This indicates a solid commitment from investors and suggests the possibility of increased private equity activity in the future.

[56] Python graphics processing, source: Aranca Research. (May 10, 2023). Value of private equity (PE) capital invested worldwide from 2017 to 2022 (in billion U.S. dollars) [Graph]. In Statista. Retrieved from https://www.statista.com/statistics/1344454/global-private-equity-capital-invested-annually/
Bain & Company. (February 24, 2023). Value of dry powder of private equity companies worldwide from 2003 to 2022 (in trillion U.S. dollars) [Graph]. In Statista. Retrieved February from https://www.statista.com/statistics/513838/value-of-private-equity-dry-powder/

3.2 First day return

The first day return on IPOs is considered an important indicator for various reasons, first of all it can be seen as a market response for the listing, a great result on the opening day of course signal confidence of the market, but a significant first gains might indicate the IPO was underpriced, resulting in lost potential revenue for the firm, while a weak first-day return may signal the IPO was overvalued. The data for the analyses are collected from "Initial Public Offerings: Updated Statistics by Jay R. Ritter", the focus will be on the mean of first day return using two different metrics, Equal-Weighted Return and Proceeds-Weighted Returns. The first one measures the average first-day return of IPOs by giving each IPO the same importance or weight regardless of the size of the offering. The mean first-day return is just the sum of the individual IPO returns divided by the number of IPOs. While proceeds-weighted returns add weights to the IPOs depending on the proceeds from their offering. In this method, larger IPOs, which raise more money, have a stronger effect on the average first-day return than smaller IPOs. The first one regards all IPOs as equal contributions to the average, whether the business is large or small, meanwhile the second one shows the impact of each IPO in proportion to its economic relevance to the market.

Figure 3.3: Mean First-Day Return of IPOs: Equal-weighted vs Proceeds Weighted (2005-2023)[57]



[57] Python graphics processing, Source: Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice February 2, 2024
-The sample are IPOs with an offer price of at least $5.00, excluding ADRs, unit offers, closed-end funds, REITs, natural resource limited partnerships, small best efforts offers, banks and S&Ls, and stocks not listed on CRSP (CRSP includes Amex, NYSE, and NASDAQ stocks). Proceeds exclude overallotment options. The amount of money left on the table is defined as the closing market price on the first day of trading minus the offer price, multiplied by the shares offered.

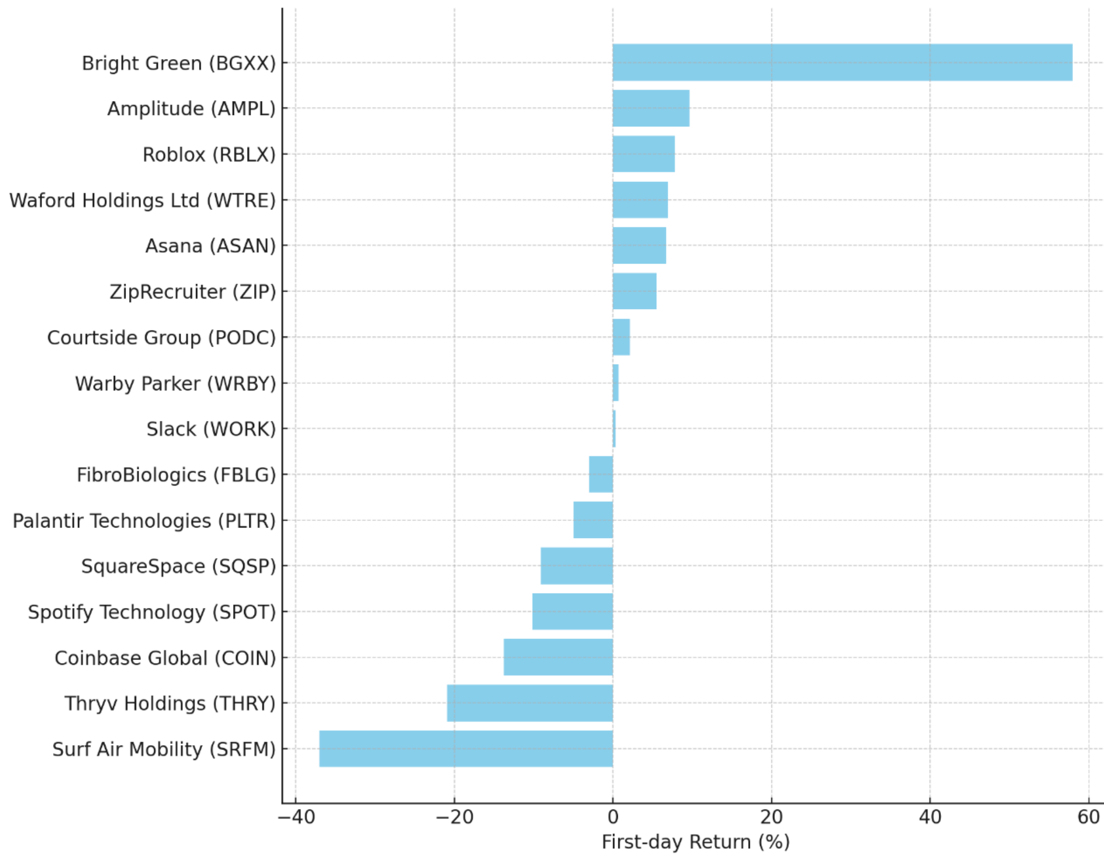
The previous graphic shows a shifting trend in the mean first-day return for IPOs in the observed years. Proceeds-weighted returns are often lower than equal-weighted returns in these years this can be since larger IPOs, which have greater impact on the proceeds-weighted metric, often have lower first-day returns compared to smaller IPOs. This could be because smaller firms which went through IPOs could have more volatility and larger early returns caused to limited knowledge and investor enthusiasm, which might not continue in the long run. The divergence between the two metrics can be noticeable during some years where the gap is more pronounced, for example the years 2010, 2019, and 2020 show a huge disparity, this mean that throughout these years, smaller IPOs had considerably better first-day returns compared to bigger ones. Contrarily in recent years the difference between equal-weighted and proceeds-weighted returns appears to have reduced, this can suggest convergence in the performance of IPOs regardless of size, it can be caused also by the pandemic situation that had risen the volatility. The graphic underscores the relevance of assessing the size of the IPO when evaluating market performance and investor returns on the first day of trade. Smaller firms could give higher early returns, which might be attractive to some investors, but larger companies produce a weighted return that could be considered as a more steady and representative indication of the market's acceptance of new listings.

The sample size for direct listing is limited due to the recent introduction of this listing option, it is possible to analyse the various companies that have undertaken this path, remembering however that the first-day return in these cases can be more volatile due to the absence of a stabilizing underwriting process that typically accompanies an IPO.

The following bar chart shows the initial trading day's price movement from opening to closing for several firms who opted for direct listings, these companies listed in the period between 2018 and 2024, in the graphic representation reAlpha Tech (AIRE) is not present for graphic reasons (first-day return of 1,667.4%). The free market determines the first trading price in direct listing, this approach may result in increased volatility, as seen by the broad spectrum of initial-day returns displayed in the figure, there is a great difference between these companies, Bright Green (BGXX) and Amplitude (AMPL) had significant gains, indicating high market demand and investor trust. While other firms like Thryv Holdings (THRY) and Surf Air Mobility (SRFM) saw negative returns, either due to investor scepticism or general market circumstances.

Companies such as Spotify Technology (SPOT) and Coinbase Global (COIN) saw moderate to considerable negative first-day returns, contradicting the belief that direct listings consistently result in a price increase on the first day.

Figure 3.4: First-Day Return of Direct Listing[58]

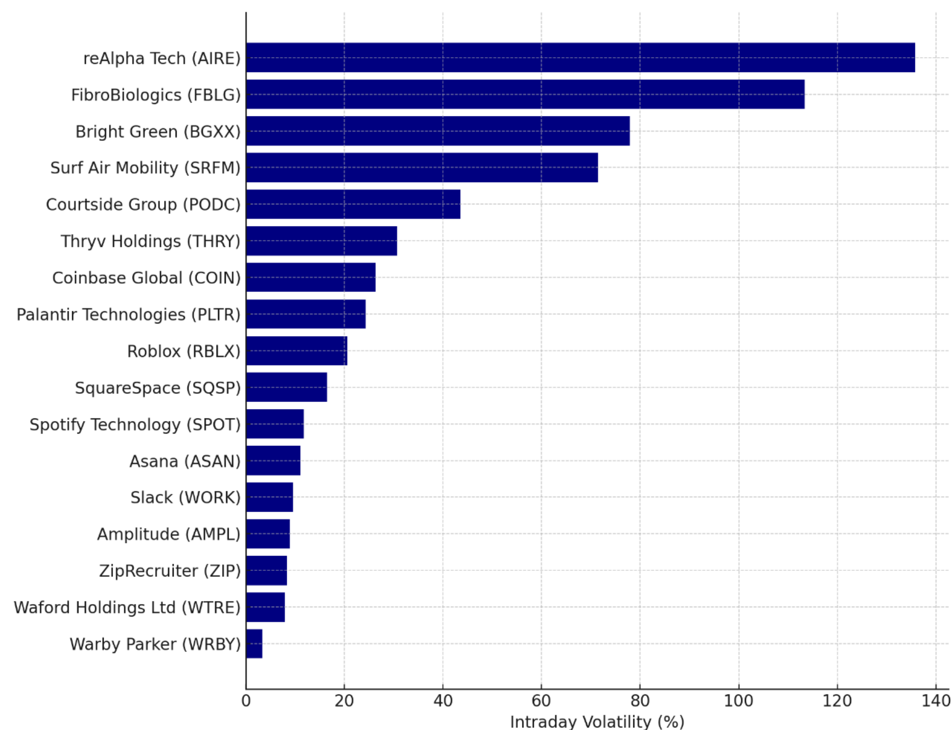


The intraday volatility mean for all these firms is 36% but this data is boosted by high volatility of firms like AIRE, as mentioned before, or FBLG and BGXX, that with low trading volume compared to the others were unpredictable the first day. The mean value of the first-day return excluding AIRE is approximately -0.1%, this comparison can be distorted due to the relatively limited number of enterprises choosing for direct listing. Traditional IPOs, instead involve a broader pool of firms, which provides for a more solid average return that is less sensitive to the effect of outliers. In comparison, the direct listing technique is less regularly employed, and as such, the average first-day return might be considerably altered by just a few anomalous performances, in fact if

[58] Python graphics processing, Source: Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice February 2, 2024

we add the company AIRE this data will rise to almost 100% that is not a credible result. The result of the market-oriented price for the listing is reflected on the high intraday volatility as shown in the below table, in which some firms have a value higher than 100%, while the bigger firms have a lower value due to the fact that the company is better known, and the market is more informed.

Figure 3.5: Intraday Volatility of Direct Listing[59]



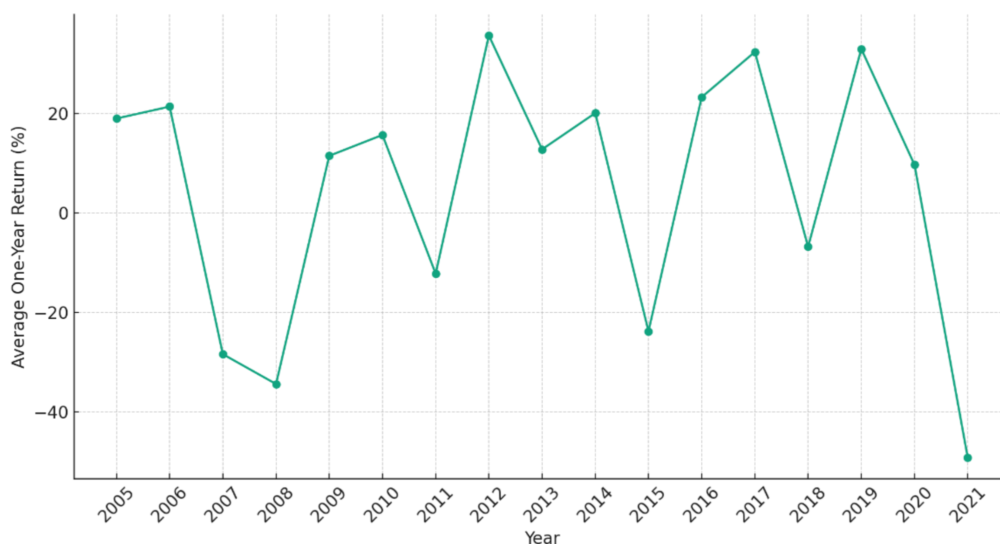
3.3 Long run performance

After analysing the raised capital and the first day performance, the focus will be on the medium-long term performance, using graphical analysis it will be possible to analyse two elements of IPOs performance: the average one-year return on IPOs and the average three-year buy-and-hold return, this second one including market-adjusted and style-adjusted returns. The years of the analysis are from 2005 till 2021 due to the impossibility of analysing subsequent performances, this indicator represents the short-term profitability and market reception of newly public firms, so a good return may indicate that the IPO was priced properly or undervalued, producing to capital gains for early investors. Meanwhile, a negative return can be due to an overvaluation at the time

[59] Python graphics processing, Source: Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice February 2, 2024

of the IPO or a worsening in market circumstances or firm performance after the listing. The graph demonstrates considerable volatility in average one-year returns during the observed timeframe, in years like 2012, 2018 and 2019, there has been peaks in returns indicating great market confidence and but also underpriced IPOs which had led to early profits. In contrast, years such as 2008 and 2021 exhibit negative returns, this was due to the 2008 global crisis and the global pandemic that caused large economic downturns.

Figure 3.6: Average One-Year Return on IPOs (2005-2021) [60]

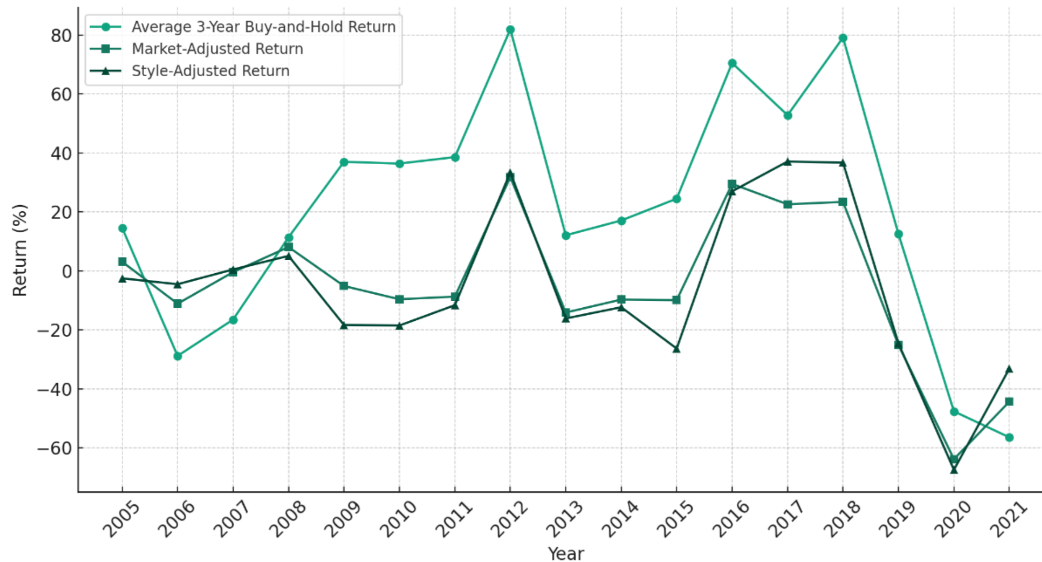


The second graph expands the research to a three-year horizon, in addition to the average 3 years performance return there are two other lines that provide market-adjusted and style-adjusted returns. Average 3-Year Buy-and-Hold Return estimates the total return an investor would have obtained by holding the IPO shares for three years, disregarding any market influences or investing style factors, so it basically the intrinsic value rise of the firm post-IPO. Market-Adjusted Return, instead, adjusts the raw buy-and-hold return for general market movements, it aims to isolate the firm's performance from larger market patterns, offering insight into whether the company outperformed the market, in this case are determined as the buy-and-hold return on an IPO less the compounded daily return on the CRSP value-weighted index of Amex, Nasdaq, and

[60] Python graphics processing, Source: Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice February 2, 2024 - IPOs with an offer price below $5.00 per share, unit offers, small best efforts offers, natural resource limited partnerships, REITs, closed-end funds, banks and S&Ls, ADRs, and IPOs not listed on CRSP within six months of issuing have been excluded

NYSE companies. Last Style-Adjusted Return refines the study by correcting for the investment type, helping investors evaluate how certain IPOs perform relative to similar investing techniques.

Figure 3.7: Average 3-year Buy-and-hold Return on IPOs (2005-2021) [61]



The graph exhibiting these three measures highlights the intricacy of IPO performance evaluation over a longer time. For example, a year with strong average buy-and-hold returns can nonetheless underperform when adjusted for market trends, showing that the overall market outperformed the individual gains from IPO investments. Similarly, the style-adjusted return might identify discrepancies between the IPOs' performance and desired investing styles, stressing the necessity of alignment with investor strategies. There are years where all three indicators move together, showing that the IPO's performance is either so good or so weak that it prevails over market and style considerations, while in other years they differ, showing that external variables like market circumstances or the success of comparable investing types considerably affect the IPO's perceived performance, this is clear notable in 2008 and 2021 when the global crisis and the pandemic had an huge impact on the economy and these are the only two years where the this indicator is lower than the two adjusted return.

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[61] Python graphics processing, Source: Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice February 2, 2024 - IPOs with an offer price below $5.00 per share, unit offers, small best efforts offers, natural resource limited partnerships, REITs, closed-end funds, banks and S&Ls, ADRs, and IPOs not listed on CRSP within six months of issuing have been excluded

For direct listing, instead since the companies are much less and this listing method is recent the sample size is formed of only 12 companies as shown in the following graph, focusing on the long performance the average of 21,3% suggest that companies that choose to go public through a direct listing can offer a good growth, but if the focus move on the market-adjusted value the average is negative so even if there was a nominal growth, compared to the market these companies have underperformed. Also the value of Style-adjusted return is negative, this implies that the direct listings, although an overall positive buy-and-hold return, have underperformed when compared to peers with comparable investment styles.

Figure 3.8 Long-run Returns on Direct Listings[62]

Sector	Number of IPOs	Average First-day Return	Average 3-year Buy-and-hold Return		
			IPOs	Market-adjusted	Style-adjusted
Direct Listings	12	2.1%	21.3%	-33.5%	-25.6%

[62] Source: Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice February 2, 2024

4 The Spotify Case

4.1 Introduction to Spotify [63-64]

Spotify was founded in Stockholm, Sweden, on April 23, 2006, by Daniel Ek and Martin Lorentzon. Spotify aimed to provide a legal and accessible platform for streaming music. The goal was to provide a better alternative than piracy and offer reimbursement for artists and the music business. The official launch of the service was October 7th of 2008. The service offered a freemium model; basic services were free with advertisements and restricted control, while additional features, such as offline listening, were offered via paid subscriptions. This method was intended to draw as much of the user base in with zero cost and encourage switching over to the paid model to have a better experience without ads and added features. Spotify's ascent from a modest company to a global powerhouse in music streaming wasn't smooth. It received initial criticism from big record companies and several artists because to worries over income and the impact on album sales. Despite these hurdles, Spotify's novel approach to music streaming, allowing massive access to music collections and playlists, eventually won over both the industry and fans. By providing an enticing legal alternative to piracy, Spotify played a fundamental influence in revolutionising how consumers access and listen to music. The company turned up notable milestones in its growth, such as debuting in the U.S. in 2011, going global with millions of paying customers, and a direct listing on the New York Stock Exchange in April 2018 Spotify has never stayed the same for long--today it is even embracing podcasts and audiobooks, in a reflection of the ever-changing character digital media With a total of 600 million users each month and December 2023 saw that number rise to 236 million paid subscriptions, Spotify now regards itself as being at the forefront in audio streaming services. Its significance extends beyond merely music streaming; it has changed the entire music industry, artist marketing, and how music is delivered and consumed globally.

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[63] *Spotify*. (2024). Wikipedia. https://en.wikipedia.org/wiki/Spotify

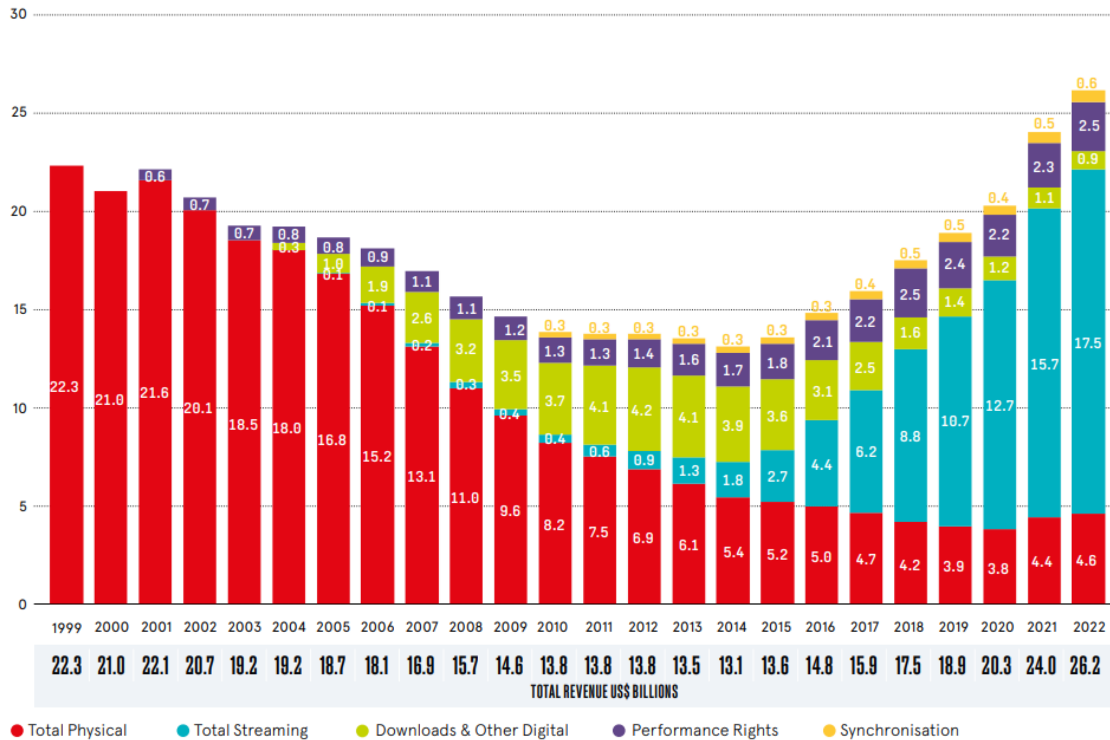
[64] *Spotify; About Spotify*. (2024). Spotify. https://newsroom.spotify.com/company-info/

4.2 Industry

Before Spotify and the emergence of streaming services the music business was dominated by physical sales (CDs, vinyl albums) and digital downloads. The late 1990s and early 2000s had a boom in piracy owing to platforms like Napster, resulting to a large drop in the industry overall income. So, there was a crisis for record companies and artists as they tried to prevent unauthorised downloads and sharing of music files. The first service was Apple's iTunes which debut in 2001 and provided a legal digital alternative by enabling customers to purchase individual songs or albums, but the business still focused on ownership rather than access. The advent of Spotify in 2008 signalled a huge shift in how consumers received music, in fact there was a freemium business model (the possibility to choose between a free membership with advertisements or a premium membership without), so Spotify changed the industry from a purchase-driven paradigm to one based on access and streaming. This approach addressed the issue of piracy by establishing a legal, user-friendly platform that offered enormous libraries of music for a modest monthly price or for free with commercials. After Spotify's arrival, the music business witnessed a comeback to growth. Streaming revenues began to counterbalance the reductions in physical sales and downloads, becoming the major source of revenue for the business. Spotify, along with other streaming services like Apple Music, Amazon Music, and Tidal, has enlarged the industry, giving artists with a platform to reach worldwide audiences, and altering music discovery by combining data and algorithms to customise the listening experience. Thanks to Spotify and the others streaming services now artists release music more regularly, leveraging singles and EPs to continually interact with audiences rather than depending primarily on traditional album cycles and concert. Streaming platform can be seen as a disruptive innovation in this business and firm that not follow the path which Spotify start lost an important part of their market share. Other instruments like playlists have become a potent tool for music discovery and marketing, with placements on popular playlists frequently contributing to considerable gains in streams and publicity. In short, Spotify other streaming services have revived the music business by adapting to changing customer demands, delivering a legal alternative to piracy, and developing a sustainable model of music consumption based on access rather than ownership. This

shift has resulted to greater profits, revised music release tactics, and better worldwide accessibility off music.

Figure 4.1: GLOBAL RECORDED MUSIC INDUSTRY REVENUES 1999 - 2022 (US$ BILLIONS) [65]

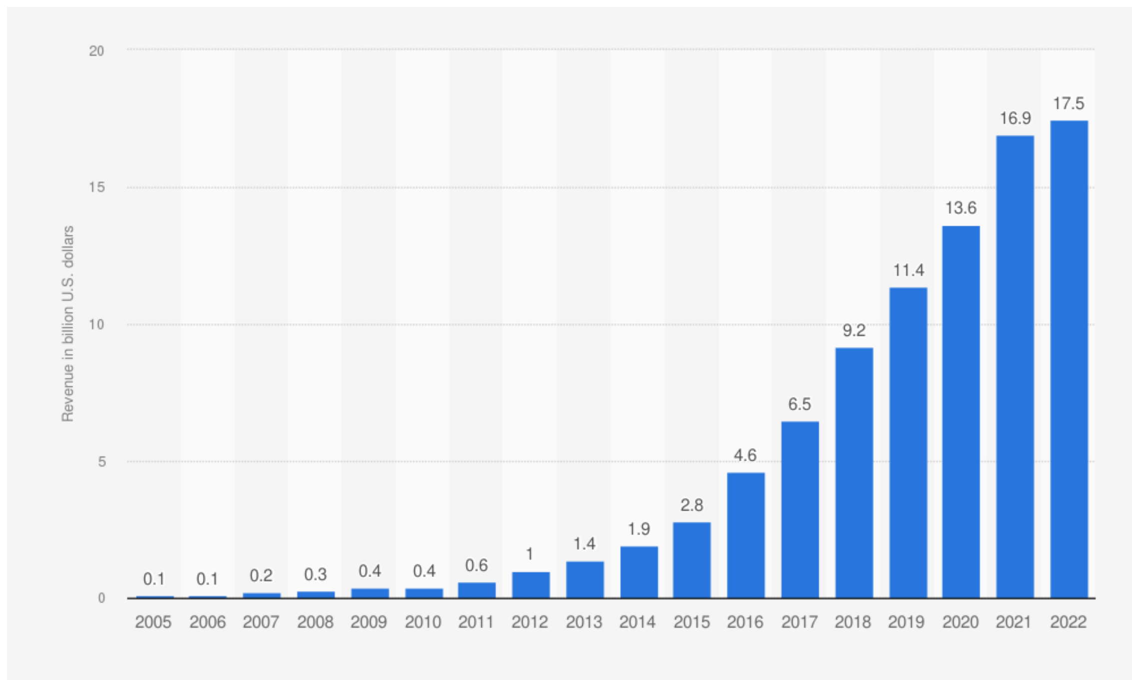


The above figure illustrates the trend just discussed and shows the fluctuating income sources of the global recorded music documenting the transition from physical formats to digital platforms, and eventually to streaming services. The emergence of digital downloads temporarily gained popularity in the business, providing a connection between physical and non-physical content. Streaming first emerged as a small and presence in the financial landscape, but it rapidly grew to become the predominant source of revenue for the music business by 2022, also boosted by the global pandemic. The rapid increase in popularity highlights a significant change in how people of different generations consume music, which is influenced by the widespread use of the internet and the convenient availability of extensive music collections through streaming services. During this trend, performance rights and synchronisation have

[65] International Federation of the Phonographic Industry. (2023). Global Music Report: State of the Industry. IFPI. Retrieved from https://cms.globalmusicreport.ifpi.org/uploads/Global_Music_Report_State_of_The_Industry_5650fff4fa.pdf

shown a decent durability and a low volatility, this stability indicates a demand for music in public performances and its integration with visual media. In a nutshell it is possible to say that the industry changes the main source of income from the supremacy of the physical to the rise of the intangible, the music industry's history mirrored the larger digital revolution, where access and service have overtaken ownership and product.

Figure 4.2: Revenues of the music streaming industry[66]



After analysing the global revenue of the whole industry, it is possible to focus more on the music streaming industry, the specific sector in which Spotify made the most of revenues. The above figure gives a visual illustration of the substantial rise of music streaming income worldwide from 2005 to 2022. The data are obtained from IFPI and published by Statista in 2024, these offers a clear indicator of the shifting tides in the music industry's income sources and consumer behaviour. This decade represents a crucial transition in the music industry, partly owing to the emergence and subsequent domination of music streaming services. As shown in the chart in 2005 revenues from music streaming were minimal, at about 0.1 billion U.S. dollars, showing an industry still primarily reliant on physical and download sales. The technology and infrastructure

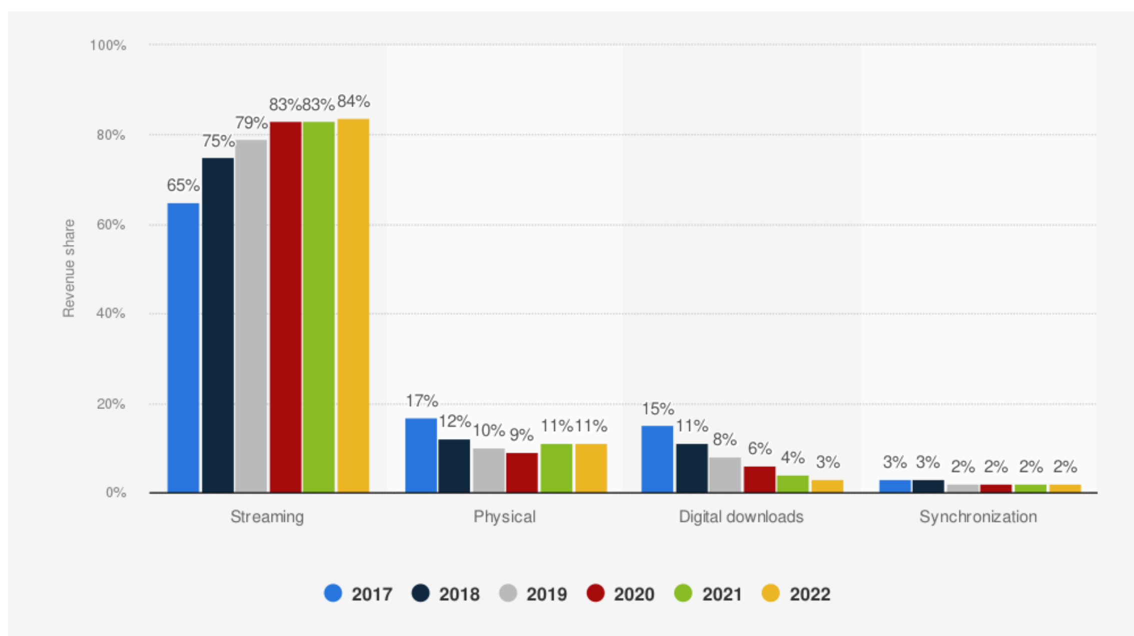
[66] IFPI. (April 22, 2023). Music streaming revenue worldwide from 2005 to 2022 (in billion U.S. dollars) [Graph]. In *Statista*. Retrieved February 09, 2024, from https://www.statista.com/statistics/587216/music-streaming-revenue/

for streaming were in their infancy, with high-speed internet not yet common and the notion of streaming music still foreign to most customers. However, by 2008, the year Spotify was created, there was a substantial jump to 0.3 billion, signifying the beginning of change. This growth coincided with the first efforts towards the adoption of streaming platforms, but at this time, the industry's income model was still under substantial pressure from piracy and a falling interest in physical media. As the figure goes, the growth gets more obvious, notably from 2013 forward. By this time, Spotify and other services like Apple Music and Pandora had grown more established, with their freemium models proving to be effective in converting free users to paid subscribers. From 2015 to 2022, we can see an huge spike in income, going from 2.8 billion to a peak 17.5 billion U.S. dollars. This time presumably depicts a maturing industry where streaming becomes the standard, with a large share of users prepared to pay for subscriptions. The trend of the chart the adaptability of the music business to digital transformation, adopting streaming as its principal source of revenue. The movement recorded in the chart shows the tale of how the music business reacted to the difficulties of the digital age, discovering new methods to monetise music in the era of the internet.

Looking at the U.S. market it is possible to examine the distribution of revenue in the music business, in particular the following chart depicts the distribution of music industry revenue in the United States from 2017 to 2022. The statistics, supplied from the Recording Industry Association of America (RIAA) and are collected from Statista in 2024, it results obvious the dominance of streaming as the dominant source of income during the six-year period. In 2017, streaming accounted for 65% of the income, which rapidly rose year-over-year, reaching 84% by 2022, while physical sales, which include CDs, vinyl, and other tangible media, show a falling tendency from 17% in 2017 to 9% in 2022. This reduction mirrors the larger industry trend away from tangible formats as customers choose the convenience and immediacy of streaming services. Digital downloads, once a key income stream with the emergence of platforms like iTunes, have experienced a sharp fall from 15% to barely 2% in the same period. This development reflects the fading attraction of acquiring and owning individual tracks or albums digitally when a subscription to a streaming service provides large collections at a possibly lower cost. Lastly, synchronization revenue, which includes royalties from

music being utilised in movies, television, advertising, and games, stays very small and consistent, providing between 2% and 3% of the overall revenue across the years. This category's stability implies a steady demand for music licensing across many types of media and entertainment. Overall, the chart highlights the disruptive impact streaming services like Spotify, Apple Music, and Amazon Music have had on the music industry's business model. The fast acceptance of streaming has not only revolutionised the way consumers connect with music but has also reshaped the economic structure of the business, bringing new problems and possibilities for artists, record labels, and distributors.

Figure 4.3: Distribution of music industry revenue in the U.S. from 2017 to 2022[67]

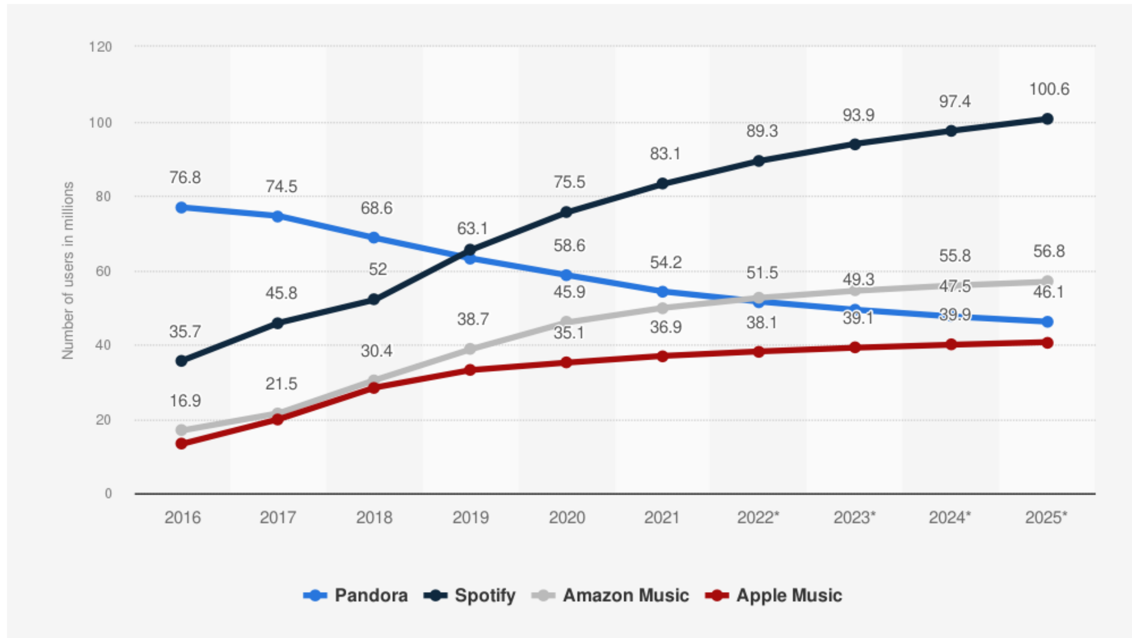


The main source of income for the firm is directly linked to their user base, so for having an idea about the possible growth of the firm is it possible to analyse at the monthly active users (MAU) of the company and confront with the competitors. Evaluating that metric is possible to understand better the market share dynamics and the effectiveness of the firm's user engagement strategies. The following graphic illustrates the trajectory of active user numbers for majors' music streaming platforms in the United States, spanning from 2016 to a predicted 2025, including Pandora, Spotify, Amazon Music, and Apple Music. The data are sourced from eMarketer, a market

[67] IFPI. (April 22, 2023). Music streaming revenue worldwide from 2005 to 2022 (in billion U.S. dollars) [Graph]. In *Statista*. Retrieved February 09, 2024, from https://www.statista.com/statistics/587216/music-streaming-revenue/

research organisation that delivers insights and trends connected to digital marketing, media, and commerce, and presented by Statista.

Figure 4.4: Number of active users of major music streaming services in the United States[68]



In particular Spotify's user growth has exhibited a robust and consistent upward trend from 2016 to the expected statistics for 2025, signifying its escalating popularity and market reach. Spotify, which has around 35.7 million subscribers in 2016, is expected to surpass 100 million active users by 2025, a growth greater than 280% in this span. Meanwhile Pandora what was the company with the highest market share in 2016 experiences an initial surge but subsequently undergoes a decline after 2017, decreasing from 76.8 million users to an estimated figure of less than 50 million users by 2025. This implies a potential change in consumer choice or heightened competition impacting Pandora's user population. Instead, the others two competitors' firms had a upward trend but much lower in percentage respect to Spotify, in particular Amazon Music starting with 16.9 million subscribers in 2016 and steadily increasing to an anticipated 56.8 million users by 2025, in this case the increase can be related with the integration of Amazon Music into the larger Amazon ecosystem and the perks accessible to Amazon Prime customers. Apple Music, instead, begins with 21.5 million

[68] eMarketer. (October 12, 2021). Number of active users of major music streaming services in the United States from 2016 to 2025 (in millions) [Graph]. In *Statista*. Retrieved February 12, 2024, from https://www.statista.com/statistics/293749/spotify-pandora-number-active-users/

in 2016 and increases to 38.7 million in 2019. However, starting from 2019, the number of users for Apple Music appears to reach a peak and then gradually decrease, stabilising at about 30 million users by 2025, influenced by the increase of the other services. These trends are the result of the intense competition in the streaming sector and can also be impacted by technological advancements, shifts in customer behaviour, and strategic collaborations or new services introduced by these companies.

4.3 Spotify financial situation before going public[69]

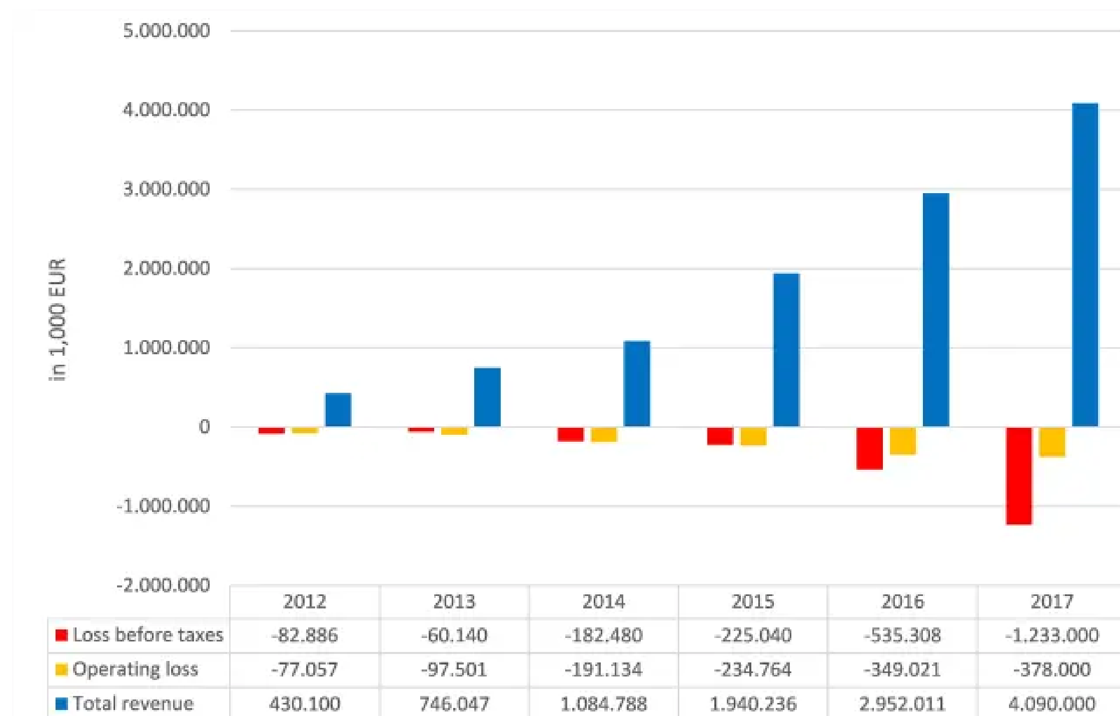
Spotify was valued between US $16-20bn at the end of 2017, in previous years the company's revenues had increased significantly, by almost 1000% between 2012 and 2017. However, the company's enormous growth was financed by numerous loans and other hybrid financing instruments. In 2016 the firm raised US $500 million through convertible bonds at an interest rate of 4%, In addition, they engaged in debt financing arrangements with companies such as TPG Capital, Dragoneer and further clients of Goldman Sachs obtaining cash at a 5% interest rate. These agreements also included provisions that encouraged an initial public offering (IPO) by offering greater discounts for converting the debt into shares. Spotify is employing these financial tactics to obtain funding while successfully managing the process of becoming a publicly traded company. In the case Spotify does not go public the year after that the discount increase by 2.5% every six months in all the above-mentioned financing. Spotify's financial tactics demonstrate their efforts to obtain cash while managing the process of becoming a publicly traded company. The company failed to go public in 2017 and the discount rates increased, and due to high finance costs the firm cannot afford to wait much more time for an IPO. In the same period Spotify start a cooperation with Tencent Music, each company acquired a 10% stake in the other, this cross-investment not only enhanced financial and strategic relations between the two streaming titans but also permitted Spotify's entry into the Chinese market, the higher valuation of Spotify created a cash differential of $600 million to $1 billion, which Tencent compensated to Spotify and provided the Swedish firm with significant liquidity.

In the following graph are highlighted some of the main financial data in the period before the listing, it is possible to note that although as mentioned before the total

[69] Tschmuck, P. (2018, April 3). Spotify goes public – an economic background analysis. Music Business Research. https://musicbusinessresearch.wordpress.com/2018/04/03/spotify-goes-public-an-economic-background-analysis/

revenue had a big increase during these years, however, it also demonstrates that the company's losses, both in terms of operational loss and loss before taxes, continued to rise over this period. This shows that despite the increased income, Spotify was investing substantially, presumably in market growth, product development, and licencing expenses, which led to these losses. The graph depicts the difficulty Spotify experienced in balancing expansion with profitability before going public.

Figure 4.5: Spotify's revenues, pre-tax losses and operating losses, 2012-2017[70]

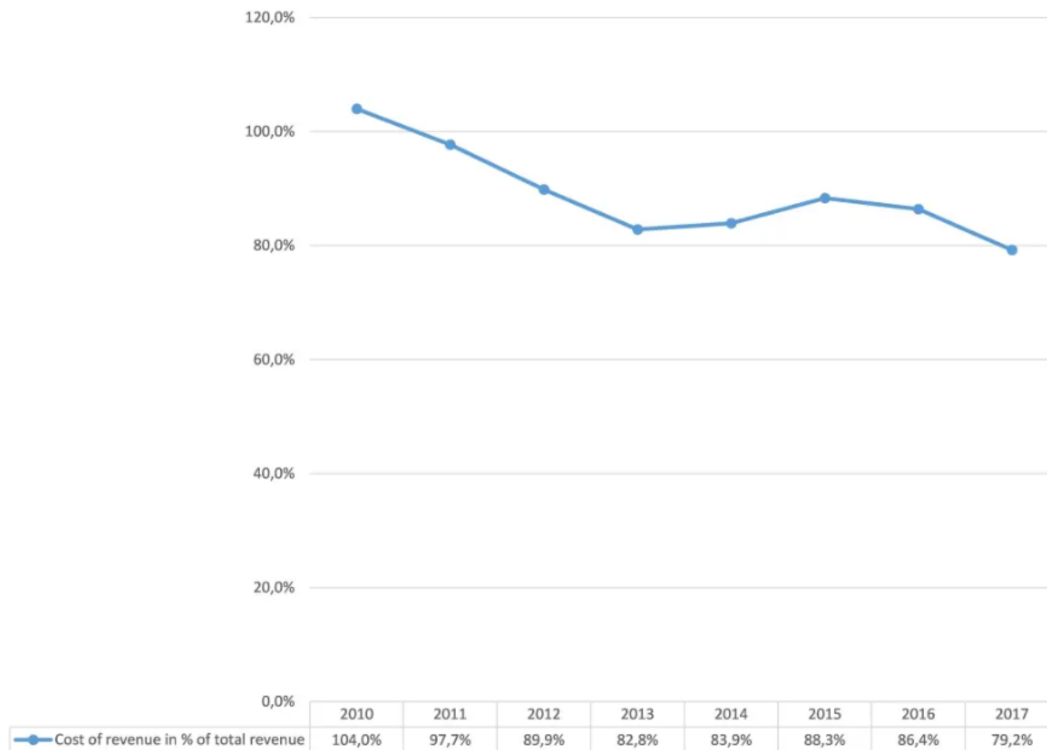


	2012	2013	2014	2015	2016	2017
Loss before taxes	-82.886	-60.140	-182.480	-225.040	-535.308	-1.233.000
Operating loss	-77.057	-97.501	-191.134	-234.764	-349.021	-378.000
Total revenue	430.100	746.047	1.084.788	1.940.236	2.952.011	4.090.000

The following line graph displays Spotify's cost of revenue as a proportion of total revenue from 2010 to 2017. The company had a problem in the cost of revenue, in 2010, the cost of revenue surpassed total revenue, suggesting that Spotify was spending more on expenditures related with delivering its service than it was making. However, from 2011 forward, the firm try to make a progressive drop in this proportion, suggesting an improvement in cost management relative to income. By 2017, the cost of sales has fallen to 79.2% of the total revenue, showing Spotify's efforts to streamline its cost structure and perhaps move towards profitability.

[70] Tschmuck, P. (2018, April 3). Spotify goes public – an economic background analysis. Music Business Research. Source: Spotify annual reports 2013-2017.

Figure 4.6 Spotify’s cost of revenue in percent of total revenue, 2010-2017[71]



4.4 The process of going public[72]

The main purposes of Spotify were:

-Offer increased liquidity for its current shareholders, without increasing capital itself and without the limits imposed by typical lock-up agreements

-Provide unrestricted access to all buyers and sellers of its shares, providing Spotify’s current owners the chance to sell their shares immediately after listing at market pricing

-Conduct its listing procedure with full openness and enable market-driven price discovery

Spotify's decision to opting for a direct listing was made possible thanks of the extensive acknowledgment of its brand.

[71] Tschmuck, P. (2018, April 3). Spotify goes public – an economic background analysis. Music Business Research. Source: Spotify annual reports 2011-2017.
[72] Spotify Case Study: Structuring and Executing a Direct Listing. (2018, July 5). The Harvard Law School Forum on Corporate Governance.

Figure 4.7 Spotify direct listing process[73]

Regarding the first point highlighted, when we refer to a private company the shareholders cannot resell their shares on a securities exchange, an IPO can solve that problem, but it implies a contractual lock-up agreement, so for certain existing shareholders and the issuer there is a period of 180 days post-listing in which they cannot sell their shares. With the usage of direct listing, instead, the shareholders will be free to sell their stakes in exchange immediately. In the direct listing all prospective buyers and sellers have an unlimited access to the market, rather than limiting participation to a small group of institutional investors and an underwriting syndicate of investment banks like in the traditional IPO process. There is not a bookbuilding process unlike traditional IPOs, where a fixed number of shares are sold at a set price, the Swedish firm allowed any prospective buyer to place orders at prices they deemed appropriate, making all existing shareholders eligible to sell their shares directly on the NYSE at market prices from the first day of trading. This strategy created a market-driven dynamic for choosing the starting price, contrasting with the traditional practice where initial share prices are generally preset. On its first trading day, Spotify's shares opened significantly higher than the NYSE's initial reference price, showcasing the potential benefits of direct listings in achieving more market-driven pricing and providing existing shareholders the opportunity to sell at market rates right from the start, potentially realizing higher returns than the average seen in traditional IPOs. Spotify for the listing process wanted to enhance market-driven price and to do so they boosted their transparency, using this method instead of the regular IPO decrease the

[73] Tschmuck, P. (2018, April 3). Spotify goes public – an economic background analysis. Music Business Research..

phenomenon of underpricing. Prior to its NYSE offering, Spotify gave forward-looking financial forecasts for both the first quarter and the year of 2018, a step not common for firms in the pre-IPO stage. Furthering its commitment to transparency, Spotify bypassed the typical IPO roadshow, which is normally directed at institutional investors, in favor of conducting a publicly accessible Investor Day. This event was webcast live, enabling global access to speeches from its full leadership team. Then by renouncing lock-up agreements and giving extensive financial details and open access to its investor education process, the company positioned its market valuation to be set completely by market dynamics of supply and demand on the stock exchange. This strategy sought to allow Spotify's share price to establish a natural equilibrium based on real-time market dynamics, contrasted with the more regulated and opaque pricing procedures of typical IPOs. Spotify was the first firm of that size that went public through a direct listing. In the route to its direct listing, the company participated in talks with the SEC, NYSE, and its advisers, negotiating through the nuances of legal laws and the expectations of the market. This strategy was a substantial divergence from the usual IPO procedure, showing several fundamental differences. The first step was The Registration Statement, and as a foreign private issuer, the firm utilized a Form F-1 registration statement for a resale rather than a traditional IPO, so they can allow existing shareholders to sell their shares directly in the market under certain conditions. The firm also used an inclusive strategy, registering shares for both affiliates and non-affiliates, enabling a larger base of its shareholders to participate in selling their shares from the first day of trade, utilising Rule 144[74] for those qualified. Spotify published a process for price determination that depended on buy and sell orders gathered by the NYSE, aiming for a transparent and market-driven starting price, complemented by releasing recent private transaction prices. For the plan of distribution, the company opt for a model analogous to routine trading on public markets, without engaging in a scheduled selling operation that would classify as underwriting. Regarding the advisory firms correlated to this operation, Spotify of course had not a formal underwriting syndicate, but recruited Goldman Sachs, Morgan Stanley, and Allen & Company as financial consultants to assist in the

[74] Rule 144 states that if an issuer hasn't complied with the Exchange Act's Section 13 or 15(d) reporting requirements for at least 90 days before selling securities, a one-year holding period is required from the later of when the securities were acquired from the issuer or an affiliate, for both affiliates and non-affiliates. For the first 90 days after Spotify fulfilled the Section 13 or 15(d) reporting criterion, neither affiliates nor non-affiliates who had held shares for less than a year may sell their shares under Rule 144.

listing process, abandoning usual book-building and price support efforts for a consulting role, notably in selecting the starting price. Spotify replaced the usual IPO roadshow with a publicly available Investor Day, boosting transparency and investor education without the selective targeting of institutional investors.

4.5 SEC Review and the Regulation M[75]

The SEC's examination of Spotify's direct listing was similar to that of a conventional initial public offering, with many of the comments focusing on the special features of the direct listing, such as its structure, how the opening price on the NYSE is set, and the functions of the designated market maker and financial advisors. The SEC wanted to make sure that Spotify provided a clear explanation of the advantages and potential risks of its direct listing approach over traditional IPOS, the company registration statement was then approved by the SEC on March 23, 2018. Spotify broke from the typical IPO timeframe by setting its first trading day for April 3, 2018, nearly a week following the SEC's clearance. This delay served two primary purposes: enhancing transparency by issuing public company-like financial guidance and allowing time for this information to be absorbed by the market and ensuring liquidity and equitable access by giving existing shareholders enough time to deposit their shares into brokerage accounts for trading right from the start. This technique requires extensive preparation work post-approval to accommodate the share deposits. The NYSE generally lists firms through an IPO with a strong underwriting commitment, a transfer from another market, or a spin-off, requiring companies to achieve specified public float requirements. For private companies not previously registered with the SEC, the NYSE could list them if they demonstrated a $100 million aggregate market value of publicly held shares through independent valuation and recent trading prices in unregistered securities markets, though Spotify's private share trading did not meet these criteria. To facilitate Spotify's direct listing, the NYSE launched a rule modification procedure with the SEC in March 2017, ending in February 2018 with the SEC's adoption of a new rule. This guideline enables direct listings without an underwritten IPO provided the firm has an independent valuation of at least $250 million in publicly owned shares and employs a financial advisor for price determination. Spotify, with its valuation reaching

[75] Spotify Case Study: Structuring and Executing a Direct Listing. (2018, July 5). The Harvard Law School Forum on Corporate Governance.

$250 million and without trading in private placement markets, profited from this new regulation for its direct listing. Regarding Regulation M, which strives to safeguard the integrity of the securities offering process by avoiding market manipulation, the application to Spotify's direct listing was questionable due to its non-traditional character. Without a defined start and end date for the Regulation M limited period in a direct listing scenario, Spotify requested a no-action letter from the SEC. The SEC decided not to propose enforcement action, provided that the limited period commenced five business days before the NYSE's pricing decision and terminated with the start of secondary market trading. This ruling offered clarification on allowed actions and communications around Spotify's direct listing, facilitating a seamless transition to public trading.

4.6 Listing[76]

On its debut trading day on the NYSE, April 3, 2018, Spotify's initial reference price was established at $132.00 per share, aligning closely with the highest sales price of $132.50 from private transactions earlier that year. Without a traditional IPO's "price to public," establishing an initial trading price through the balance of buy and sell orders by the authorised market maker took additional time, leading to the shares opening for trading after 12:30 pm ET at $165.90 per share. Throughout the day, Spotify's shares showed very little fluctuation, concluding at $149.01 a share on a trading volume of 30,526,500 shares, against a background of 178,112,840 shares outstanding. This low volatility of 12.3% intraday was notable compared to prior huge technology IPOs in the preceding decade. The listing efficiently met Spotify's aims by providing liquidity for shareholders, allowing fair access for all market actors, retaining transparency in the process, and setting a trading price decided by market supply and demand.

4.7 Regulatory framework[77]

It is important also to better understand the legal framework around this direct listing, in the process of going public the Securities Act and Exchange Act aim to safeguard

[76] Spotify Case Study: Structuring and Executing a Direct Listing. (2018, July 5). The Harvard Law School Forum on Corporate Governance.

[77] *The Underlying Underwriter: An Analysis of the Spotify Direct Listing | The University of Chicago Law Review*.

investors by implementing a compulsory disclosure system, that is supervised by the SEC, that achieves a balance between the goals of investor protection through disclosure and promoting capital creation without placing undue obligations on enterprises. In particular, the focus will on Section 11, which imposes substantial responsibility for any false or misleading information in a securities offering, and Section 2(a)(11), which provides the definition of the word "underwriter."

The Section 11 of the Securities Act seeks to safeguard investors by guaranteeing precise disclosure in registration statements. It enables investors to file lawsuits for significant misstatements or omissions without having to prove their reliance on these inaccuracies. This is because there is a presumption of reliance under the "fraud-on-the-market" theory. Nevertheless, in order to establish legal standing, the plaintiffs must be capable of tracing their stocks back to the registration statement. This task becomes intricate in direct listings because of the combination of shares sold under the registration statement and those that are not, as well as the difficulty in tracking share ownership.

Section 11 of the law designates five entities that can be held accountable: issuers, executives and directors, accountants and other professionals, and underwriters. While issuers are subject to strict responsibility, other defendants have the option to invoke the "due diligence" defence if they can prove their lack of information of the misrepresentation and establish that they performed a comprehensive inquiry. Underwriters, specifically, are required to demonstrate that they conducted a "reasonable investigation" to have confidence in the veracity of the statement.

The possibility of being held liable under Section 11, which may result in statutory damages that account for the discrepancy between the initial offering price and the price at the time of sale or legal action, is substantial. From 2009 to 2017, almost 20% of initial public offerings (IPOs) were subject to a significant federal securities class action. The median estimated statutory damages for claims related to the Securities Act amounted to $83.3 million[78]. This underscores the crucial role of precise disclosures and comprehensive due diligence in securities offers.

[78] Laarni T. Bulan, Ellen M. Ryan, and Laura E. Simmons, *Securities Class Action Settlements—2017 Review and Analysis* *9 (Cornerstone Research, 2018)

The Section 2(a)(11) of the Securities Act defines "underwriter" broadly to encompass anybody who serves as a conduit for transferring securities into the hands of the investing public, covering conventional and statutory underwriters. Traditional underwriters often relate to investment banks undertaking firm commitment underwriting, but statutory underwriters can be any entity essential for a security's distribution. In this section we can distinguish between three primary types:

-Persons purchasing from an issuer with distribution intent: This mainly pertains to investment banks in firm commitment underwriting settings. However, with Spotify's direct listing, the financial advisers did not acquire stocks, rendering this criterion inapplicable.

-Persons offering or selling for an issuer: This includes people seeking securities exchanges on behalf of an issuer, comparable to "best efforts" underwriting. For Spotify, its financial advisers' position may match with this description if they were judged required for the distribution of ordinary shares.

-Persons engaging in the undertaking: The interpretation differs, concentrating on public reliance on the party's knowledge, the importance of the party's involvement in distribution, or whether the party participated in distribution-related activities. This wide interpretation might possibly extend to financial advisors in direct listings, depending on their role in the offering process.

The courts have construed these categories to provide a wide scope, including any entity materially involved in the distribution of securities, regardless of a direct purchase or conventional underwriting function. The relevance of these categories in Spotify's direct listing shows the expanding structure of securities offerings and the responsibilities that diverse organisations play in bringing securities to the market.

The designation of financial advisors as underwriters in Spotify's direct listing, despite not engaging in traditional underwriting activities, could carry significant implications under Section 11 of the Securities Act, which assigns liability for material misstatements or omissions in securities offerings. For understanding how to identify the financial advisors in this case it is possible to look at legal precedents that supports broad understanding of underwriter status, embracing individuals who offer securities for sale

or engage in their distribution. In Spotify's direct listing, financial advisers played a significant role by establishing the registration statement's objectives, developing it, and preparing public communications and investor presentations. Their involvement, albeit not undertaking firm commitment underwriting or price stabilization, suggests underwriter status due to their significant position in the process. The potential rise in expenses owing to this obligation does not invalidate the innovation of direct listings but assures investor protection, in keeping with SEC policy aims.

Courts have traditionally adopted diverse interpretations of the underwriter definition, emphasising on the solicitation of sales and the requirement of a party's engagement in distribution. Applying these interpretations, the financial advisers' conduct in Spotify's direct listing suggest they may be deemed statutory underwriters. The Investor Day event, similar to a roadshow in typical IPOs, further reinforces this notion given its key role in teaching potential investors about Spotify.

Under both the larger and narrower judicial interpretations, Spotify's financial advisors might certainly be designated as statutory underwriters. Their vital involvement in preparing the offering and the documents offered to investors, along with the SEC's desire for accurate and comprehensive disclosures, corresponds with the idea of underwriter liability. This classification is consistent with the legislative objective of the Securities Act and supports the SEC’s goal of safeguarding investors by establishing accountability throughout the securities offering process.

In the end, so, while granting underwriter status to financial advisers in direct listings like Spotify's may increase the related expenses, it does not negate the benefits of such type of listings. The emphasis on investor protection through accurate and full disclosure justifies the risk for greater liability, ensuring that direct listings remain a viable and efficient option for firms to access public markets.

4.8 Cost of Spotify Direct Listing[79]

After analysing the process of Spotify direct listing and the legal framework it is important to highlight the costs the company faced to go public. It does appear that the company choosing this listing method had saved a significant amount of money, unfortunately it is not possible to foresee the cost that the company would have faced in case of a classic IPO. A comparison can be made with similar companies that went through an initial public offer, like Snap that was half the size of the Swedish firm and paid $85 million[80] to its underwriters or Facebook which, instead, was three times Spotify size paid over $176 million[81]. Looking at the below prospectus it is clear that the major cost was related to advisors' fees in the amount of $35 million, as said before this actor can also be seemed like the underwriter and bears the majority of the responsibility along with the company. The other costs are all less impactful, and most are attributable to advisors and lawyers, total costs were less than $46million, therefore by relating them to the two companies mentioned above it can be said that Spotify has had enormous savings by using direct listing.

Figure 4.7: Cost of Spotify Direct Listing[82]

	Dollars
SEC Registration Fee	$55,357
Listing Fee	$320,000
Printing Costs	$875,000
Auditors' Fees	$1,848,900
Legal Fees and Expenses	$5,544,965
Transfer Agent and Registrar Fees	$73,806
Other Advisors Fees	$35,000,000
Miscellaneous Fees and Expenses	$2,000,972
TOTAL	$45,719,000

[79] Brent J Horton, Spotify's Direct Listing: Is It a Recipe for Gatekeeper Failure?, 72 SMU L. REV. 177 (2019)
[80] 196. Snap Inc., Prospectus (Form 424B4) 1 (Mar. 1, 2017)
[81] 197. Facebook, Inc., Prospectus (Form 424B4) 1 (May 17, 2012)
[82] Brent J Horton, Spotify's Direct Listing: Is It a Recipe for Gatekeeper Failure?, 72 SMU L. REV. 177 (2019)

Conclusion

As this thesis trip finishes, it is possible to reflect on the dynamic and varied world of public capital markets, where firms begin on transforming paths from private to public organisations, through an examination, the research has exposed the numerous ways, tactics, and effects connected with traversing these settings. From the analysis of traditional IPOs to the strategic embrace of alternative listing methods such as direct listings, SPACs, Reverse mergers, Crowdfunding and Private Placements, this study has tried to dissect the legal frameworks, financial processes, and market behaviours that are related to public offerings. The examination of KPIs has emphasised the relevance in analysing a company's success post-listing, giving a quantitative lens through which to analyse and compare the efficiency of various listing methods. This analytical method, particularly focused on IPOs and direct listings, has provided useful information that may influence strategic and operational decision-making. The case study of Spotify's direct listing serves as a testimony to the disruptive potential of alternate pathways to public markets, it shows how corporations may utilise the shifting dynamics of investor relations and market entrance, breaking old standards and creating new precedents for market behaviour and regulatory adaptability, also favoured by previous notoriety. This thesis has empathised the difficulties path of public listings, analysing the critical function of underwriters, the influence of market circumstances, and the strategic exploitation of KPIs in evaluating alternative listing strategies. It provides a comprehensive analysis to the existing body of knowledge on public listings, bridging the gap between historical practices and emergent phenomena that try to address the increasing demands of enterprises in their drive for public prominence. As the market landscape develops, so too will the tactics and considerations for firms wishing to go public and the legal framework have must accompany these new trends by creating regulations that promote the rise but that can still protect investors, as it has been for the introduction of direct listing. This alternative listing method might, under appropriate conditions and for well-known corporations, potentially replace regular IPOs in the future. Its advantages include dramatically decreased expenses and shorter preparation periods, combined with a smaller concern of underpricing compared to IPOs, however, this method relies solely on market supply and demand for pricing, which may result in increased volatility.

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