The Difference Between IPO and Direct Listing.

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When a private company 'Goes Public', it shifts to a publicly traded and owned entity. The shares, previously privately owned, are registered and allocated to public shareholders. This process helps a firm to raise capital which may be invested in future operations, or used for expansion and acquisition.

There are two major ways of selling shares in the public market:

1. Issue of an Initial Public Offering (IPO).
2. Issuing a 'Direct Listing.'

Before we dive deeper into how one can distinguish between them, it is crucial to understand a few basic concepts.

An Initial Public Offering (IPO) is the offer made by a private company to sell its shares to the public for the very first time. Here, a company sells part of the company by issuing new stocks. This way, it gets access to funds from the public capital market.

On the other HAND, Direct Listing is a process by which companies can go public without going through the IPO process. It makes the existing stock of the company available for sale to the public and does not issue any new stock. This is the first fundamental difference.

The goals of companies that issue IPOs and Direct Listings are very distinct from one another. Here is a glance at some key differences.

1. **Goals**
   Both of these methods are issued with different goals in mind.
   IPO is generally issued by startups that need additional capital to grow.
   Direct Listings are issued by companies that don't need additional capital but want other benefits of going public. These include recognition, visibility, liquidity, etc.
2. **Costs**
   The cost involved in issuing IPOs is considerably more than issuing a Direct Listing. A company must bear the hefty charges of paying underwriters, advertisers, investment banks, and other such parties while issuing an IPO. Contrastingly, when a company issues a Direct Listing it only issues stocks taken from existing shareholders and sells it to the public. No extra charges are involved.

3. **Objective**
   IPOs are offered by companies that wish to raise funds by selling their shares for the first time and then later have them listed on the stock exchange.

Direct Listings are offered by companies that are already listed on the stock exchange and want to list their shares in another stock exchange.

Let's say company X has its shares listed only in the BSE (Bombay Stock Exchange). It wants to issue them on the NSE (National Stock Exchange) as well. In this case, it will go for Direct Listing rather than an IPO offering.

4. Process

The process of filing an IPO is very complicated and lengthy. It can take months on end to complete. A Draft Red Herring Prospectus (DRHP) must be filed with the Securities and Exchange Board of India (SEBI), and approval must be sought. Lead managers and merchant bankers need to be appointed. Once the DRHP is approved, a final Red Herring Prospectus (RHP) which clarifies the opening and closing dates of the IPO, is issued.
With Direct Listings, however, this entire process need not be undertaken, as it has already been listed in one exchange. The paperwork is negligible as well as the costs involved. It also saves time.

5. Research

Companies that opt for IPOs employ underwriters who offer them added guidance and assistance with marketing and boost stock sales. For Direct Listing, companies are often on the lookout for extra external assistance to support their market research.

6. Lock-in Period

A Lock-in period is the time within which an investment, or invested amount, can neither be sold nor withdrawn. In the case of IPOs, the sale of the holdings held by investors and promoters is not allowed immediately. A transient lock-in period of 90-180 days is enforced. It is only when this period is over that the company insiders can be allowed to engage in the sale of their holdings.
Direct Listings do not require a lock-in period, because the sale of stocks or raising of funds involved. It is only a method to list the shares of a firm in other stock exchanges.

7. Conclusion

Both, Direct Listing and IPO offerings are ways for private firms to transition into public companies. Both of these methods greatly contrast with one another. Be it their goals, objectives, costs, processes, and more. As a cautious investor, one must consider all of the above-mentioned factors in vast detail before purchasing shares.