**Types of offering and methods of primary issue**

This element explains types of offering and methods of primary issue.

**Introduction**

At an early stage in the **IPO timetable** and at the same time as it prepares for listing, the company will work with its advisers to establish the **most appropriate method for making the issue**.

There are a number of factors to consider when deciding how to **structure** a primary issue of shares. These will be the same whether looking at a listing on the Main Market or on admission to AIM. The two most common types of offering are:

* Retail offers
* Institutional offers

It is important to appreciate that, in practice, most IPOs of commercial companies include only an institutional offering; but the minority include a retail offer as well.

For example, an IPO might involve a combination of:

* **new shares** being offered to the public (Retail);
* **existing shares** being sold to the public (Retail); and
* **either new or existing shares** being offered to institutional investors, usually by way of a placing.

**Retail offers**

If the company believes its shares will appeal to a broad range of investors, it may decide to offer them to the public in a **retail offer** (sometimes known as a **public offer**).

A retail offer will often include both an offer of both new shares and the sale of existing shares to the public.

**Offer of new shares**

The company issues new shares, for which investors subscribe.

This allows the company to raise finance.

**Sale of existing shares**

Existing shareholders sell shares to investors and the shares are transferred to the investors.

The company does not raise additional finance.

In both structures, the company will appoint either a receiving agent or a facilitator such as PrimaryBid to accept the applications from the public and deal with payment for the shares.

**Retail offer of new shares by the company**

**Triangular diagram:** Text box reading ‘Company’ with a horizontal arrow pointing to a text box reading ‘Shares’. Horizontal arrow from this text box to another reading ‘Public’. Downward arrow from this text box to another reading ‘Cash’, and downward arrow from here pointing to text box reading ‘Receiving agent/Facilitator’. There is then another arrow from ‘Receiving agent/Facilitator’ to another text box reading ‘Cash’ and an upward arrow from here pointing back to the first ‘Company’ text box. **End of diagram.**

**Retail offer of existing shares by shareholders**

**Triangular diagram:** Text box reading ‘Shareholders’ with a horizontal arrow pointing to a text box reading ‘Shares’. Horizontal arrow from this text box to another reading ‘Public’. Downward arrow from this text box to another reading ‘Cash’, and downward arrow from here pointing to text box reading ‘Receiving agent/Facilitator’. There is then another arrow from ‘Receiving agent/Facilitator’ to another text box reading ‘Cash’ and an upward arrow from here pointing back to the first ‘Shareholders’ text box. **End of diagram.**

**Employee offers**

Companies which are undertaking a listing often choose to use shares (or options over shares) in the company as a mechanism to incentivise senior management and other employees. Sometimes they offer their employees the chance to buy shares in the IPO.

It is important to understand that, in their nature, employees will be retail investors so any employee offer will almost certainly take on the characteristics of a retail offer (or, possibly, an intermediaries offer (see later in this element)).

**Institutional offers**

If a company believes that it will not attract public interest, perhaps because it is a less well-known company, the company may choose to offer its shares only to professional investors by way of an institutional offer.

Where a listing is being effected by means of a retail offer, the company will almost certainly combine that retail offer with an institutional offer so as to be able to benefit from the greater level of funds at the disposal of institutional investors.

Many companies choose purely institutional offers due to the additional regulatory issues associated with a retail offer and the fact that institutional investors tend to have much greater funds available for investment than retail investors.

The principal method of making an institutional offer is by way of a placing.

**Placing**

**Placing definition:** ‘*A marketing of securities already in issue but not listed or not yet in issue, to specified persons or clients of the sponsor or any securities house assisting in the placing, which does not involve an offer to the public or to existing holders of the issuer’s securities generally*’

FCA Handbook Glossary

Key elements of a placing are:

1. both **new** and **existing** shares can be offered by the company and the selling shareholders respectively;
2. the shares are offered to **‘placees’** (i.e. sophisticated/institutional investors rather than the general public); and
3. it is not usually necessary to appoint a receiving agent or facilitator as the investment bank makes the necessary arrangements.

**Placees**

‘Placees’ are clients of either the sponsor, the broker or the investment bank. They are other financial institutions including banks and pension funds. Prior to the day when the final price of the shares is announced, the places generally indicate to the broker:

* how many shares they would be willing to purchase in the placing; and
* at what price.

**Placing agreement**

The investment bank(s) acting on the IPO will usually place the shares for the company as the investors are usually clients of the bank(s).

The agreement between the bank(s) and the company to place the shares will be recorded in a placing agreement. This agreement will include details of the commission to be paid to the investment bank, as well as the warranties and indemnities given to the bank by the company.

**Book building**

Usually, an offer will be ‘bookbuilt’.

Book building is a way of determining the price and number of shares to be sold. It involves the investment bank (who can often be a ‘Joint Bookrunner’) running a book of interest in the shares from interested investors. In broad terms, investors submit indications of how many shares they would be prepared to buy at a specified price (or prices) and, in light of this, the bank determines the optimum price (which is payable by all investors)​

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**Intermediaries offer**

An intermediaries offer is a hybrid type of offer which takes on characteristics of both a placing and a retail offer.

The shares in an intermediaries offer are marketed only to firms who are intermediaries, as defined in the FCA Handbook Glossary.

The intermediaries allocate the shares which they are offered to their own clients (who can be retail investors) in return for a commission. An intermediaries offer can be a way for the company to access retail investors without having to undertake a full retail offer.

**Circular diagram for an intermediaries offer:** Top text box reads ‘**Company** / **shareholders**’ and there is a downwards arrow to a text box reading ‘**Clients**’. In the middle of this downward arrow (so between the two text boxes) is the word ‘Shares’. From the text box reading ‘**Clients**’ there is an upwards arrow to a text box reading ‘**Intermediaries**’ and in the middle of this arrow is the word ‘**Cash**’. From the text box reading ‘**Intermediaries**’ there is an upwards arrow pointing back to the ‘**Company** / **shareholders**’ text box. In the middle of this arrow are the words ‘**Applications & cash**’. **End of diagram.**

**Key elements of an intermediaries offer**

1. Intermediaries are fund managers and **stockbrokers** who buy and sell shares on **behalf of their clients.**
2. An ‘intermediaries offer’ is similar to a placing, in that the shares are not offered to the **general** public. However, an intermediaries offer would be regarded as an offer to the public under s.85(1) FSMA and would tend to be made by way of a price range prospectus.
3. The intermediaries apply for the shares on behalf of their clients. These clients can be private investors.
4. The company and selling shareholders do not have to offer the shares directly to the investors. The intermediary acts as an **agent**.
5. It involves considerable administration, an intermediaries offer is fairly rare and generally only suitable on large IPOs but it can be an alternative as it often involves lower marketing costs.

An intermediaries offer will generally be combined with another method or methods of offer.

**Combined offerings**

The various methods of making a primary offer are not mutually exclusive. A retail offer may combine both an offer of new shares by the company and an offer of existing shares by company shareholders.

If a retail offer is made then it can be expected that an institutional offer will be made alongside it. It is, however, also important to understand the key differences between retail and institutional offers.

**Introduction/Direct listing**

An alternative method of bringing shares to listing for the first time is an **introduction**.

An introduction does not raise any capital for the issuer. It is, instead, a way of obtaining a listing without issuing any new shares or shareholders selling existing ones.

In other words: it only involves an admission to a regulated market and there is no offer to the public.

In the US, the term **‘direct listing’** is used to describe the process where a company’s shares are admitted to trading without any organised offer by the company and/or selling shareholders (although existing shareholders may choose to sell shares to investors in post-admission trading), and this concept has recently been imported to the UK.

The company may already have its shares quoted on AIM or on an overseas exchange, but wants to now move to the Main Market of the London Stock Exchange.

An introduction would be possible provided the company’s existing shareholder base satisfies the listing requirement of no less than 10% of the shares being in public hands at the time of listing.

**Summary**

* A key distinction in the structuring of a primary share issue is between offers which involve the offering of shares to retail investors and offers which are made only to institutional investors.
* An offering of shares could entail the issue of new shares by the company, the sale of existing shares by existing shareholders or a combination of both.
* An intermediaries offer is a hybrid between a retail and an institutional offer.
* An introduction occurs where a company seeks admission to the Official List and the Main Market but no shares are issued or sold.