



THE PRACTICE OF PUBLIC INITIAL PUBLIC OFFERING OF SHARES BY A JOINT-STOCK COMPANY. A CASE OF UZBEKISTAN

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Abstract

Due to the growing demand for investment in foreign countries, many companies are using various ways to attract them. In particular, the method of increasing the company's capital by placing its shares in the primary market on the basis of IPOs. Through this method, the company offers the fairest assessment of the market value of its assets. Listed companies will be required to meet high standards of financial and business disclosure, as well as create investment appeal for potential investors.

Keywords. secondary public offering, financial market, liquidity, volatility initial public offering

Introduction

In the context of the development of the country's economy, it is appropriate for corporate structures to compete at the international level. For this, they are required to regularly develop their activities, implement innovative projects, and have their place and rating in the financial markets of developed countries. We know that the implementation of new projects is directly related to attracting a large amount of capital. Based on this, corporate structures at the international level are paying serious attention not only to attracting capital from the national market, but also to attracting capital from international financial markets. A lot of work is being done in this regard in our country. In particular, the practices of initial public offering (IPO) and secondary public offering (SPO) have entered our country.

As we know, "Initial public placement of shares in international stock markets is carried out on the basis of a certain level of competitiveness. Because the IPO provides the company with additional investments and increases the investment attractiveness and international reputation of the firm. All this provides an opportunity to effectively achieve business goals, solve social problems, and fulfill one's obligations to the state. On the other hand, entering the international stock markets itself serves as a factor of the company's further development.

It should be noted that in world practice, IPO or SPO practices are organized by corporate structures in international markets in addition to national markets. The above aspects show that the time has already come for joint-stock companies in our





country to organize IPO or SPO practices on regional and international stock exchanges.

For the first time in the practice of our country, IPO and SPO operations were carried out on December 28, 2017. "Decree No. PF-4933 of the President of the Republic of Uzbekistan dated January 17, 2017 "On measures to accelerate the sale of state-owned objects for business use and further simplify its procedures", signed on February 7, 2017 by the President of the Republic of Uzbekistan 2017-2021 In the five priority areas of the development of the Republic of Uzbekistan in the Action Strategy in 2015, tasks such as "developing the stock market as an alternative source for the deployment of free resources of the population", "achieving the initial placement of shares of individual national enterprises in prestigious foreign stock exchanges (IPO), ensuring their access to the foreign capital market" 10 of 2017 of the Cabinet of Ministers of the Republic of Uzbekistan in order to ensure the implementation and to introduce forms widely used in international practice for the disposal of state-owned objects and to attract a wide segment of the population to the stock market the relevant decision No. 268 of May "On organizing the public offering of shares on the Stock Exchange" was adopted.

Literature Review

The practice of initial public placement of shares is briefly called IPO (from the English language - Initial Public Offering). An IPO is a public placement of shares by the issuer in the market by the method of primary public subscription, during which they reach a wide range of investors and carry out free trading on the stock exchange. In other words, IPO means that the issuing company offers its shares on the open market for the first time. In this way, the company changes from "closed" to "open", that is, investors who are interested in the company's shares can freely buy them on the stock exchange.

If we look at the history of IPO, since the mid-1970s, the observation and study of the IPO process has led to the creation of a number of practical and scientific works. In the period before the global financial crisis of the late 1990s, much attention was paid to the study of IPOs. At that time, companies could make huge profits from IPOs. Initial Internet (company)-shares played an important role in the development of the new Internet-information companies industry[1].

Of course, the issuing company plays an important role in the decision to conduct an IPO and in the process of its implementation, but one should not forget about the important role of other participants in the process. Because studying the problems of conducting an IPO not only from the point of view of the issuer, but also from the





point of view of other participants allows to reveal this process more widely. SPO (from the English language - Secondary Public Offering) is the practice of secondary public placement of shares owned by shareholders." Unlike IPO, the company does not raise capital through SPO. In this case, previously placed shares are publicly offered to a wide range of investors. However, as a result of this, the attractiveness, popularity and recognition of the enterprise among investors is achieved [2].

In particular, "American scientist Jay Ritter emphasized that the IPO process should be focused on maximum capital attraction [2]"

Chinese economists Thomas Chemmanur, Gang Hu, Jiekun Huangaap point out that one of the important aspects of the participation of institutional investors in IPO practices is underwriting activity. they will receive service fee", he said [3].

Foreign economists Alex Petkevich, Thomas Brian, "most of the institutional investors participate in IRO's auctions from time to time. These types of institutional investors typically consist of investors recommended by the underwriters. They bid on a small fraction of the stock and rarely buy the stock. "Among institutional investors, the number of regular participants in IPO auctions is a minority, but they have conservative offers and are seen as participants with good knowledge of the market," he noted. "Natalia Matanova studied the impact of initial public offering (IPO) practices on private equity (RE) and venture capital (VC) ownership." Economists A. Petkevich, T. Samdani "emphasized that the relatively low valuation of shares in the IRO process affects the reduction of the volatility of income from public placement of shares [4]"

According to another group of scientists, "the purchase of shares by institutional investors has a significant positive effect on the IPO price. Institutional investors serve as a sign of the quality of companies, because they invest only in transparent and promising companies.

Foreign economists Hsin-Yi Huang, Min-Hsien Chiang, Jia-Hui Line, Yun Lin "identified 3 methods of IPO, i.e. fixed-price, auction and book -building) studied the effect of methods on investor trading. They emphasized that the methods of auction and book-building increase the efficiency of public placement [5].

Analysis and Results

In recent years, efforts have been made to reform the securities market, in particular, to improve the legal system in this area, to strengthen the protection of investors' rights, to effectively regulate the capital market, and to establish cooperation with international financial institutions. At the same time, today there are a number of urgent problems and shortcomings that are waiting to be solved in connection with





the further development of the capital market, the formation of a competitive environment, the stimulation of the increase in the liquidity of the stock market. Overcoming these problems and taking into account advanced foreign experience, development of the state securities market, including their secondary market, introduction of international standards in this regard and expansion of the investor base, further development of the capital market in our country, increase in the issuance of securities, natural and legal entities in order to expand participation in the stock market, the Decree of the President of the Republic of Uzbekistan dated April 13, 2021 No. PF-6207 "On measures to further develop the capital market" was adopted. In accordance with this decree, a list of enterprises whose shares are planned to be placed publicly through the stock exchange in 2021-2023 was determined. Pursuant to this Decree, in 2021-2023, the state stake in 15 joint-stock companies will be sold on the basis of public offers (IPO, SPO). Also, starting from January 1, 2023, local issuers may place their shares in foreign stock markets according to the underwriter's recommendation after initially placing them on the republican stock exchange, and the results of placing shares through public auctions in the IPO or SPO method will not be reviewed.

In addition to the information in the table, according to the Decree of the President of the Republic of Uzbekistan dated April 13, 2021 No. PF-6207 "On Measures for the Further Development of the Capital Market", "primary (IPO) and secondary (SPO) is set to be held under the following conditions:

- collection of applications for the purchase of shares to be sold through IPO or SPO is carried out only by the underwriter or group of underwriters with whom the contract for the transfer of this IPO or SPO was concluded;
- the underwriter sets price limits for collecting applications for the purchase of shares based on the results of the preliminary study of the joint-stock company;
- Allotment of shares through IPO and SPO is carried out on the basis of a single price determined by the underwriter based on the demand and supply of shares;
- the underwriter is given the right to choose the investors to whom the shares will be distributed based on the contract concluded with the joint-stock company, as well as to set the period during which the investors are prohibited from selling the shares purchased within the framework of the IPO and SPO.

The first IPO practice in our country was organized by "Kvarts" joint stock company. Since this process was held for the first time in our republic, it had a number of unique features. While applications for the purchase of shares were accepted for 4 months (from December 5, 2017 to April 3, 2018), only 14% of the shares offered for sale were accepted for 3.5 months. In the last 2 weeks, more than 40% of orders were received.





That is, the number of applications to buy shares increased mainly in the last 2 weeks. Auction sales were carried out on April 4, 2018.

From the data of this table, which we are analyzing, it can be seen that starting from December 5, 2017, JSC "Kvarts" put its shares up for sale at RFB "Tashkent" through IPO. The number of shares offered for sale is 4,574,934 units, and a condition has been set that one person can purchase a maximum of 0.05% of the total number of issued shares, or 2,287 shares. Subscriptions were accepted in the range from 3000 soums to 9100 soums for one share. The end date of subscription to shares is April 3, 2018, and 100 percent advance payment for shares is required at the time of placing the order. The sale of shares was carried out at the prices offered in the order placed by the buyer, with priority given to the highest offered price.

The Investment Memorandum of the joint-stock company "Quartz" was signed in December 2017 and posted on the company's official website. The investment memorandum includes the objective of placing the shares, the achievements of the company, the implemented important projects, the internationally recognized corporate management system and the forecasted results confirmed by the manufactured products.

At the same time, potential investors are primarily interested in the company's dividend policy and risk factors. The more risks are disclosed in the relevant chapter of the memorandum, the less likely it is that lawsuits will be filed against the company in the event of an adverse situation that negatively affects investors' income. However, these aspects are not sufficiently considered in the Investment Memorandum. In addition, it does not take into account all the risks of society. There is no information about the company's dividend policy. Along with posting the Investment Memorandum on the company's official website, the organizers conducted premarketing - initial meetings with investors to find out how interested they are in the upcoming share offering.

Once investor interest is confirmed, the price range (the lowest and highest price of a single share) to be placed is set and the road show begins. A public presentation was held as part of the road show, the organizers answered questions from investors and analysts.

Despite the fact that the road show was held for the first time by "Quartz" JSC, like many other events, despite the lack of experience in this work, it was noticeable that an attempt was made to conduct this stage in an informal spirit, to invite leading members of the society to the presentation. In particular, the chief accountant and the head of the department of corporate relations with shareholders participated on behalf of the society in the presentation held in Fergana region and shown on regional





television, and answered many questions of potential investors. Presentations were held in almost all regions of the republic, but in other regions, the Road Show was not very effective due to the fact that it was not televised.

Conclusions and Suggestions

As a result of reforms carried out in our country to improve the practice of attracting funds by issuing securities, the participation of joint-stock companies in the stock market, the number of issued securities, and the total value of issued securities have been increasing over the years.

According to the decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 268 of May 10, 2017, the shares of "Shakhrisabz vino-vodka" joint stock company, whose shares are to be sold through an initial (IPO) and secondary (SPO) public offering, No. 358 of the Cabinet of Ministers of the Republic of Uzbekistan dated April 26, 2019 organization of IPO and SPO practices by joint-stock company "Uzsanoatkurilishbank" JSC, "Aloqabank" JSC, "Asia Alliance Bank" JSC, "Commodity Exchange of the Republic of Uzbekistan" joint-stock company whose shares are to be sold through primary (IPO) and secondary (SPO) public offering it cannot be considered a positive situation. On the basis of the above-mentioned decisions, joint-stock companies that are determined to organize IPO and SPO practice are considered appropriate to organize this practice.

More "road shows" in front of potential investors by the companies planning to public placement of shares are important for the successful placement of shares. Because highlighting past success and future growth potential of a company planning an IPO through a "road show" will be highly valued by investors.

It should be emphasized that there are a number of factors that ensure the successful placement of shares in public trading. In particular, we can mention that joint-stock companies planning to issue shares for public sale should choose the underwriter (group of underwriters) correctly, plan marketing (advertising) work correctly, and focus on determining the period when the income will be high relative to the population when determining the time of receiving applications.

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