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Brief Introduction to Initial Public Offerings – June 2026

Historically, a public listing was a natural milestone for a growing mid-sized company. Over the past 20 years, however, private markets have grown larger and more flexible, letting even companies needing billions in capital delay going public for much longer.

With 2026 expected to bring a wave of high-profile IPOs, we wanted to give a short background on IPOs for contacts who do not follow financial markets closely.

What Is an IPO?

An initial public offering (IPO) is the process by which a privately-owned company sells stock to the public and lists its shares on an exchange. Before the IPO, ownership is usually limited to founders, employees, and early investors such as venture capital firms. Afterward, anyone with a brokerage account can buy the stock.

The process typically begins when the company hires one or more investment banks ("underwriters") to manage it. The company files a detailed registration document, or prospectus, with securities regulators and the exchange for review. This document covers the business model, history, operations, assets, two to three years of audited financials, and the planned use of proceeds. Some companies also include forecasts or guidance, though that raises separate issues.

Executives and bankers then meet institutional investors on a "roadshow" to build interest. Based on demand, they set an IPO price – the price new investors pay just before trading begins.

For large, eagerly awaited IPOs, like the recent SpaceX offering, the real excitement starts once trading opens. The opening price is rarely the same as the IPO price and, for popular offerings, can be much higher. In strong markets, investors often expect this early "pop," and it may be their main reason for participating.

After the IPO, the company must meet ongoing public reporting requirements, which, while burdensome, give investors updated information to assess its prospects.

What Do Companies Hope to Achieve via an IPO?

Companies pursue IPOs for several reasons, often combined:

- Raise growth capital for expansion, facilities, hiring, R&D, or debt repayment.
- Create a stock "currency" that can be used, with cash or debt, to acquire other businesses.
- Raise their public profile and credibility through greater disclosure.
- Separate a business from a larger group, when management, owners, or activist investors believe a standalone, focused company will be valued more highly over time.

- Strengthen the balance sheet, improve credit ratings, and lower the cost of capital.
- Give existing owners – founders, employee option holders, and private equity or venture investors – an easier way to sell shares.
- Make equity compensation more attractive to employees, since it becomes easier to sell.

An IPO is one of the most significant events a company and its founders will experience. But investors buying during or after an IPO are betting on the company's future; the listing itself guarantees nothing. Regulators only check that disclosure requirements are met – they express no view on a company's merits or prospects.

Other Investor Considerations

Companies and their bankers have strong incentives to keep the share price above the IPO price after listing. Banks earn extra fees through post-IPO stabilization activity, particularly the over-allotment option ("greenshoe"), and a strong debut boosts the company's reputation. As a result, bankers prefer to allocate shares to investors unlikely to sell quickly if the price pops.

This makes it hard for individual investors to get an allocation in highly anticipated IPOs. In hot markets, such as Hong Kong's, simply getting an allocation can matter more to investors than analyzing the company itself. Investors submit "subscriptions" for shares but may receive none, or only part, of what they sought.

A less familiar issue is the "lock-up period" – typically 90 to 180 days – during which company insiders and pre-IPO investors cannot sell shares. When it expires, often in stages, large numbers of additional shares can hit the market, even if all IPO proceeds went to the company. For example, SpaceX's IPO placed about 556

million shares plus 83 million more via the greenshoe, but commentators suggest over 1.4 billion further shares could become available by mid-summer if the price holds – a potential drag on the stock.

Some IPOs combine shares sold by the company with shares sold by existing shareholders. That isn't necessarily a problem, but investors should recognize they may be funding an exit for a well-informed shareholder rather than funding company growth directly. Similarly, proceeds from company-issued shares don't always fund the business: IPOs backed by private equity sponsors often use proceeds to repay debt taken on to fund earlier distributions to fund investors.

Prospectuses are long and technical – SpaceX's ran over 300 pages – which makes them hard for most readers. Anyone considering an IPO should at least read the 10-15 page Summary near the front. While the Risk Factors section feels like an attempt to deflect (SpaceX's ran 35-plus pages), the Summary will highlight the relevant risks. This extensive disclosure exists partly because it forms the legal defense for underwriters and company officers if the share price later disappoints and is challenged in court.

Final Takeaways in Evaluating IPOs

- We do not participate in IPOs as a firm, but they can suit many institutional and retail investors – otherwise they wouldn't attract the heavy subscription demand they typically see. If a company and its sector appeal to an investor, the IPO price often offers a more attractive entry valuation than comparable public peers (private companies have historically traded at roughly a 15% discount to similar listed peers). Bankers and companies favor a successful process, increasing the likelihood of short-term performance. However,

many institutional investors prefer to let a new listing mature before buying in.

- Look past the IPO narrative to the fundamentals. Revenue growth, margin trends, and a credible path to forecasts matter more over time than IPO-day excitement. It is often worth waiting for a few quarters of results before forming a long-term view.
- A first-day "pop" often reflects sentiment more than value. The day-one high is rarely a good entry point; many debuts give back most or all early gains within the year.
- Watch for lock-up expirations. The added share supply can pressure the price regardless of business performance.
- Newly listed companies tend to be more volatile than the broader market, with a wide spread between best and worst performers – an argument for selectivity and patience rather than broad participation in crowded IPOs.

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