

The IPO Process and Historical Amnesia

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BUS 5111: Financial Management

March 5, 2026

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“An initial public offering (IPO) is the event in which a private company converts to a public company by offering for sale a portion of its ownership through newly issued shares, enabling public investors to purchase equity and allowing its stock to trade on a public exchange” (Fernando, 2025). The IPO process typically takes between eighteen and twenty-four months, and involves five steps: selecting an underwriter, due diligence and filings, pricing, stabilization, and transition (Vipond, 2020).

The first step in the process is the selection of an investment bank such as JPMorgan, Merrill Lynch or Credit Suisse to manage the process. This underwriter helps determine the price of the stock, describes and markets it to prospective investors, documents its financials, submits the required legal documents, and, finally, launches the IPO on a stock exchange (Phung, 2025). Possible agreements with the underwriter include a firm commitment, whereby the underwriter purchases all of the offered shares and resells them to the public, a best effort agreement whereby the underwriter only sells the shares on behalf of the company without a guarantee of an amount that will be raised, and an all or nothing agreement whereby if all the shares are not sold the entire agreement is cancelled (Vipond, 2025).

"IPO due diligence is a process of researching a private company to make sure it meets the requirements for being listed on a public exchange." It involves gathering information about the company's organizational structure, licensing and taxes, board and employees, financials, customer service relations, and property (Lake, 2025).

The pricing step is the process of issuing a valuation of the stock, using techniques like those we previously studied in this class, using factors such as market demand, industry comparables, potential growth, and the corporate narrative to assign a price to the offered shares (Gad, 2026).

Stabilization is the purchasing of stock by underwriters to support the secondary market price of a security immediately following an IPO in case the newly issued shares falter or are shaky in trading (Kenton, 2025). This is permitted only for a short period of time after the public offering, during which time SEC prohibitions against price manipulation are suspended (Vipond, 2025).

Transition to market competition is the final stage in the process, which begins twenty-five days after the IPO, once the quiet period mandated by the SEC ends. Investors now transition from relying on mandated disclosures and prospectus to relying on the market for information regarding their shares (Vipond, 2025).

This completes the assigned task of describing the IPO process along with critical points in its process. I can not leave however without stepping back and reflecting on the process from a broader perspective. One of our assigned resources for this unit is a short TED talk titled "*How does the stock market work?*" that begins with the following fairy tale: "In the 1600s the Dutch East India Company employed hundreds of ships to trade gold, porcelain, spices, and silks around the globe. But running this massive operation wasn't cheap. In order to fund their expensive voyages, the company turned to private citizens - individuals who could invest money to support the trip in exchange for a share of the ship's profits. This practice allowed the company to afford even grander voyages, increasing profits for both themselves and their savvy investors. Selling these shares in coffee houses and shipping ports across the continent, the Dutch East India Company unknowingly invented the world's first stock market. Since then companies have been collecting funds from willing investors to support all kinds of businesses." (Elfenbaum, 2019, 0:06).

Knowing a bit about the history of this period, I was struck by what was conspicuously missing from this sweet tale of coffee shops, willing and savvy investors, increasing profits, and gold, porcelain, spices, and silks. On their government website, the Kingdom of the Netherlands issued a public apology for the commodity whose conspicuous absence drew my attention. "[E]nslaved people were sold and transported to areas governed by the United Dutch East India Company (VOC). For generations, people were born into slavery and forced to work on Dutch

plantations their entire lives. Slavery enabled the Netherlands to become an economic world power” (2023).

The story in the United States is the same. As historian Edward E. Baptist writes in the introduction to his book, *The Half Has Never Been Told: Slavery and the Making of American Capitalism*,

With the creation of innovative financial tools, more and more of the Western world was able to invest directly in slavery’s expansion. Such creativity multiplied the incredible productivity and profitability of enslaved people’s labor and allowed enslavers to turn bodies into commodities with which they changed the financial history of the Western world (p. xxvi).

As we study the rules of financial management, it is important to think about what lies behind the abstract financial statements that are the objects of our attention, the real world of people and things that the abstract valuations represent.

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