

# Chapter 60

## Price Determination in Public Offering and Evaluation Methods

**Ümit Hacıoğlu**

*Istanbul Medipol University, Turkey*

**Hasan Dinçer**

*Istanbul Medipol University, Turkey*

**Zuhal Akça**

*Beykent University, Turkey*

### ABSTRACT

*The latest financial situation in capital markets in advanced economies, emerging markets, and the Euro zone illustrates that volatility and risks related to global economic activity and global financial markets have impact on local capital markets and directly affects the value of company stocks even though an investor diversified his/her risk by investing in a portfolio. The initial public offering process, performance evaluation methods, and price determination became key factors for companies and investors. In this chapter, advantages and disadvantages of IPO, pricing methods and performance evaluation methods are assessed.*

### INTRODUCTION

In the era of Global Economic Crisis, ambiguities and volatilities in capital markets were significantly intensified having deep impacts on equities and assets. Volatility in stock prices and sharp asset price decreases transmitted into a credit mechanism and consequently dysfunctional giant sectors disseminating stress in financial system around global economic activity. Performance of publicly traded companies should be evaluated by assessing the pros and cons of initial public offering process from an interdisciplinary perspective as well as attached to financial markets.

DOI: 10.4018/978-1-5225-1837-2.ch060

All these facts with global recession have illustrated the need for the companies to sustain their presence they should be successful and most importantly they should make this success sustainable. Initial public offering is another way obtaining long term funds. Moreover, it carries some questions for investors. Thus the businesses needed to reconsider the conventional performance evaluation processes made from the current accounting data of the businesses and implementing a multi-dimensional, modern performance evaluation process has become inevitable. In this chapter, initial Public Offering process has been evaluated with its advantages and disadvantages. Moreover, methods of IPO and performance evaluation have been assessed.

## **INITIAL PUBLIC OFFERING AND PROS AND CONS FOR COMPANIES**

The latest economic turmoil once more illustrated the fact that financing strategies are pioneering tools for top managers before and after fluctuations. Companies developing long term growth and sustainable development programs are determining their strong capital financing tactics. Public offering in developing economies is an effective way to obtain long term funds with lowest cost and highest interest abroad.

When the development of the capital markets and exchanges are studied it can easily be seen that the importance of the public offering in our country's economy is increasing. One of the main reasons of this is the decrease in the income gained from the alternative investment sources due to the effect of crises and the current global crisis. The benefits provided to the company by public offering are explained below (TUYID, 2014; SPK; Ayoğlu, 2006, pp.89-90):

- **Equity Financing and a Stronger Financial Structure:** Providing a funding without interest and the gained funds having no payback in a certain term, are the main reasons why the public offering is an appealing method of gaining funds. The capital gained by public offering has a healing effect on the borrowed capital and the company looks financially positive. This situation eases the loan supply of the company and enables the opportunity of funds gaining with appropriate conditions.
- **Liquidity Supply and Sustainable Growth:** With the public offering of the stock certificates, these stock certificates are enabled to be asset in the secondary markets. "thus, the prices of stock certificates are affected in a positive way and the value of the existing stock certificates are increased due to the increase in the number of potential buyers. " (Ayoğlu, 2006, p.90). This situation enables the stock certificates to be turned into cash swiftly as a result of the determination of the prices of the stock certificates as transparent as possible based on the supply and demand of the market. Public offering carries the property of being an important method of liquidity gaining.
- **Increasing Reputation and Credibility:** Public offering period carries their visibility to the top by publishing a prospectus and advertisements. Company and activities are being followed up by financial media and analysts as well as a large public together with the stock certificates being reached to the individual and corporate investor. Awareness about the products and services produced by the company is created. By increasing their domestic and foreign recognition, the company creates a difference from the competitors and it, now, has the chance to be in the international markets. Publicly held companies, are also companies which are trusted by employees, credit institutions, suppliers, investors, customers with their independent audits, transparent management, controllable financial structures and their obligation to inform the public. This situation when combined with the recognition, enables the ease of access to all kinds of needs (funds, intellectual

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