Attachment to REP 540: Investors in initial public offerings

Factors that influence retail investors in IPOs

WHERE TO

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1 Executive Summary

About this research

The overall objective for this research was to provide ASIC with a deeper understanding of retail and other non-professional investor decision-making processes when considering and investing in IPOs and provide insight into the relative impact of different information sources (formal and informal), as well as marketing and distribution channels.

This report is based on qualitative research conducted with investors and potential investors in IPOs over a 3-month period. The research was conducted in two stages:

- Stage one: 14 individual depth interviews, 3 paired depth interviews, and 2 group discussions with IPO investors or those seriously considering investment in an IPO. This included 11 High Net Worth individuals[1]. This stage was conducted in December 2016.
- Stage two: 24 semi structured telephone interviews with investors or those seriously considering investment in an IPO. This stage was conducted in January and February 2017.

Profile of investors in this study

All study participants had invested, or seriously considered investing, in an IPO in the 12 months prior to partaking in the research. The sample included men and women, aged from their early 30s, to 70+, from a range of ethnic backgrounds. Level of experience with IPOs varied from: yet to invest, through to those with over 30 years' investment experience (and participation in more than a dozen IPOs).

Most investors had invested in multiple IPOs over several decades. Level of confidence in making financial decisions was self-identified from '*extremely confident*' to '*limited experience and knowledge*'. Total portfolio size of investors varied greatly from $0 (yet to invest) through to $1m+.

Participants were predominantly retail investors (i.e. persons who would not qualify as a professional investor). There were also a number of investors who would qualify as a sophisticated or High Net Worth investor.

For ease of reference, this report simply refers to study participants as 'investors'.

The total sample for this qualitative study was 52 investors. Full details of the sample and methodology are contained in the appendix of this document.

Attraction to IPOs as an investment class

In this study, investing emerged as more than a purely financial proposition; it also contained personal, social and emotional dimensions.

[1] Defined as: an investor who has personally: invested $500,000 in company securities, has $2.5m in net assets, or had gross income of $250,000 for each of the last 2 financial years

The principal attraction of IPOs (mentioned by almost all of the sample) was the desire to make money. This was articulated different ways by different investors and included:

- the idea of 'getting in on the ground floor', which was variously associated with:
  - companies that had listed at relatively low prices and gone on to achieve significantly higher share prices (potentially leading to high profits compared to initial outlays)
  - a good way to boost investment returns compared to bank deposits
  - a good way to enter a market sector of particular interest to them at a reasonable price
- an expectation (with some IPOs) that the listing company would pay income via a steady stream of **dividends**
- the potential to make a **'stag' profit** (described as where the company's share list was at a premium to the float price of the stock, enabling the investor to take a quick profit). This was limited to only some IPOs

In recounting their experiences, investors also revealed the influence of various emotional and behavioural drivers across the decision-making process. Two common ones were:

- the excitement of being involved in a new enterprise or being a 'part of something' happening at a point in time (e.g. technological innovation, privatisation of government assets); and
- the sense of intellectual challenge inherent in correctly reading and potentially 'beating' the market - commonly cited by the more experienced (and self-declared) highly confident, IPO investors in the sample.

Attraction to specific IPOs

The study revealed most investors quickly dismissed IPOs they were not interested in pursuing. They were typically drawn to a particular IPO for one of the following reasons:

- It was in a market they knew well — which was felt to enhance their ability to evaluate the quality of the investment opportunity
- It was in an area of personal interest – thus providing an opportunity to support something they enjoyed/ believed in (e.g. technology, organics, etc.)
- Was in a sector - or targeting a market - they saw as possessing strong growth potential (e.g. aged care)
- It was endorsed by a trusted voice — whether personal to them (i.e. a broker, family member, friend or colleague) or a financial commentator they followed and respected.

Thus, the study found many investors commenced the consideration phase with a positive predisposition to the IPO and consequently sought information and perspectives to confirm or challenge that position.

Investment decision-making and the role of heuristics

IPOs were universally recognised as complex, unique and inherently risky, with most investors acknowledging that a wide variety of factors could impact the outcome of an IPO.

Across the sample, we encountered varying (stated and unstated) levels of experience, knowledge, risk assessment capability and risk appetite. While we did not verify the outcomes of the investments discussed in this research, we did implicitly discover the potential impact of a number of behavioural factors, including heuristics, while collecting investor's accounts of their experiences. These were present in the collection of the research data itself (e.g. interviews are by nature impacted by hindsight bias) and in the experiences investors conveyed (e.g. cognitive loads imposed by too much information and/or dense/complex information).

This is unsurprising, given the ample empirical evidence from the behavioural sciences, which show that financial decision-making is influenced by a range of contextual, personal, social and environmental factors. In relevant sections throughout this report we make reference to where we think behavioural biases may have been at play in the investment decision process.

Six distinct styles of decision-making emerged

It was evident in this sample that a variety of decision styles were employed in evaluating investment in IPOs, once the initial assessment to pursue a particular IPO had arisen. The decision style adopted depended on a variety of factors including: level of reported experience with, and knowledge of, the stock market overall and IPOs in particular; appetite for risk; propensity to be influenced by others; and level of confidence in their ability to make an investment decision.

Whilst many investors appear to have adopted a similar approach to multiple IPOs, others changed their approach depending on the IPO in question. For example, even the most diligent researcher could drop their guard for a blue-chip stock or impulse buy based on a 'gut instinct'.

We have drawn out six indicative decision-styles based on the interviews with investors and our subsequent analysis of these. Some of the key characteristics of each style were:

- **'Self-confident information hunter'**: Due diligence, backed by experience, creating a confidence to assess and act. High Net Worth investors tended to have a 'Self-confident information hunter' style.
- **'Informed but circumspect':** Assessed opportunity based on research and gut instinct.
- **'Opportunistic':** Where a heightened sense of connection to an IPO often outweighed due diligence.
- **'Blue chip confidence':** Where the size and level of public scrutiny associated with Blue Chip IPOs provided a perception of relative 'safety' –and hence a proxy for reduced uncertainty.
- **'Follower':** Decisions to invest based on the actions of another.
- **'Considerers':** Inability to reconcile risks presents a barrier to investing.

These decision styles are explored through case studies in a later section of the report and summarised briefly in the chart overleaf.

Figure 1. Summary of decision styles

DECISION STYLES

Self-confident information hunter decision style

- Tended to have solid financial understanding and IPO experience
- Confidence in own ability to assess and make informed decision
- Claimed high level of research into IPOs
- Tended to have developed own guiding principles
- Intellectual thrill often mentioned as motivation to invest in IPO alongside potential financial gain

Informed but circumspect decision style

- Claimed high level of research
- Tended to have invested in multiple IPOs – acknowledged varying degrees of success
- Aware (and cautious) of wide range of factors that can impact an IPO's success
- Claimed preference for referencing multiple sources of information, per IPO
- Reported growing confidence with each IPO – but often strongly influenced by a 3rd party (e.g. commentator, broker, etc.)

Opportunistic decision style

- Heavily influenced by often a single source of information
- Claimed low level of research
- Disproportionate level of confidence in their decision to invest – given limited company (or sector) knowledge or consideration

Blue chip decision style

- Lower appetite for risk
- Tended to only invest in high-profile Blue Chip IPOs - comforted by the size and level of public scrutiny
- Mainstream coverage created a sense of accessibility and assumed by some to carry a higher degree of certainty (compared to other IPOs)
- High profile nature also reduced the perceived need for exhaustive research – which itself could be a barrier to investing in other IPOs. Claimed level of research varied

Follower decision style

- Claimed low level of research
- Typical low level of confidence in their ability to assess the IPO and/or willingness to conduct due diligence
- Confidence in the evaluation of another investor – whom they believed to be knowledgeable and thorough in their assessment

Considerer decision style

- Inability to commit to investing despite claimed medium to high level of research
- Mixed investment experience (not likely to have invested in an IPO)
- Lack of certainty negatively impacts confidence to act
- Inability to assuage sense of risk, resulted in inaction

> *"You have to go with your gut feel. Does it feel right? …If I don't understand the industry and I don't feel comfortable with the explanations that are coming online, I don't invest"*

> *"With South32, I didn't really read the prospectus at all. I just looked at the key dates, how much the shares were going to be, and how to apply. It was being spun off from BHP and I was pretty confident it was going to be a good investment. I didn't think I needed to know more about it; I thought it was a no-brainer. Whereas one I was looking at recently, which had invented a robot for brick laying, I read a lot of the prospectus because I didn't know anything about the company or its product"*

What investors wanted to know

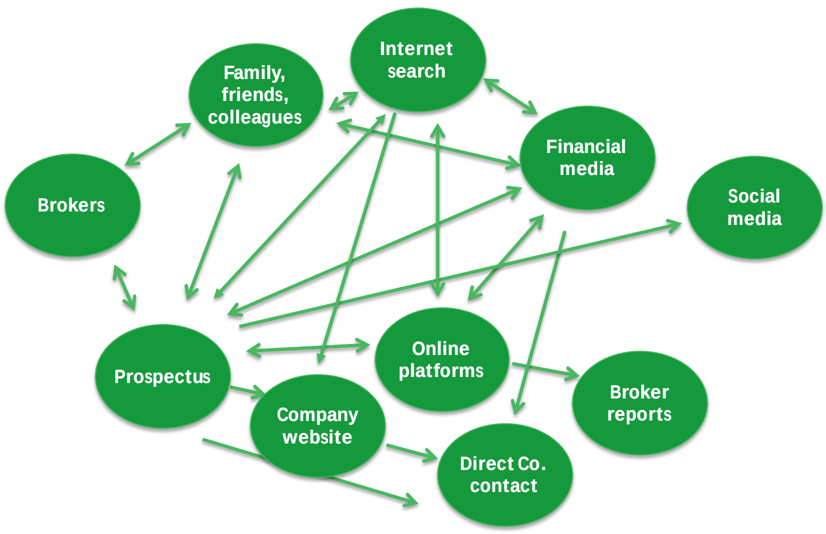
For specific IPOs, almost all investors expressed a desire to understand the business and the market in which it operated. What this entailed in practice was highly variable and largely subjective, although investors often referenced wanting to understand 'fundamentals' (an umbrella term which included what the company produced, by what means and for which markets). Investors also made reference to understanding particular factors they believed could influence the success of the company (such as the uniqueness of the offer, vulnerability to replication, short or long-term growth, the management team, etc.).

Where investors started and what they deemed important varied depending on: their existing knowledge of the company or sector; how they came to be aware of the IPO, the diversity and complexity of information available; and their self-confidence in their ability to meaningfully interpret what they found. Many commented that the parameters required to understand a business, could vary from one IPO to the next, and this uniqueness was what made IPOs difficult to assess.

Information search and evaluation

The majority of investors did not have set sources they used each time they wanted to assess a stock market investment and there was no linear process of information gathering that investors stepped through (even among the most experienced in the sample). Rather, the process was more akin to a matrix, where various sources were used to obtain information, and the individual pieced together a "story" about the IPO that they considered to be sufficient to enable them to decide if they wanted to invest. The diagram below illustrates the non-linear interrelationships between various sources, based on how study investors described their recent experience.

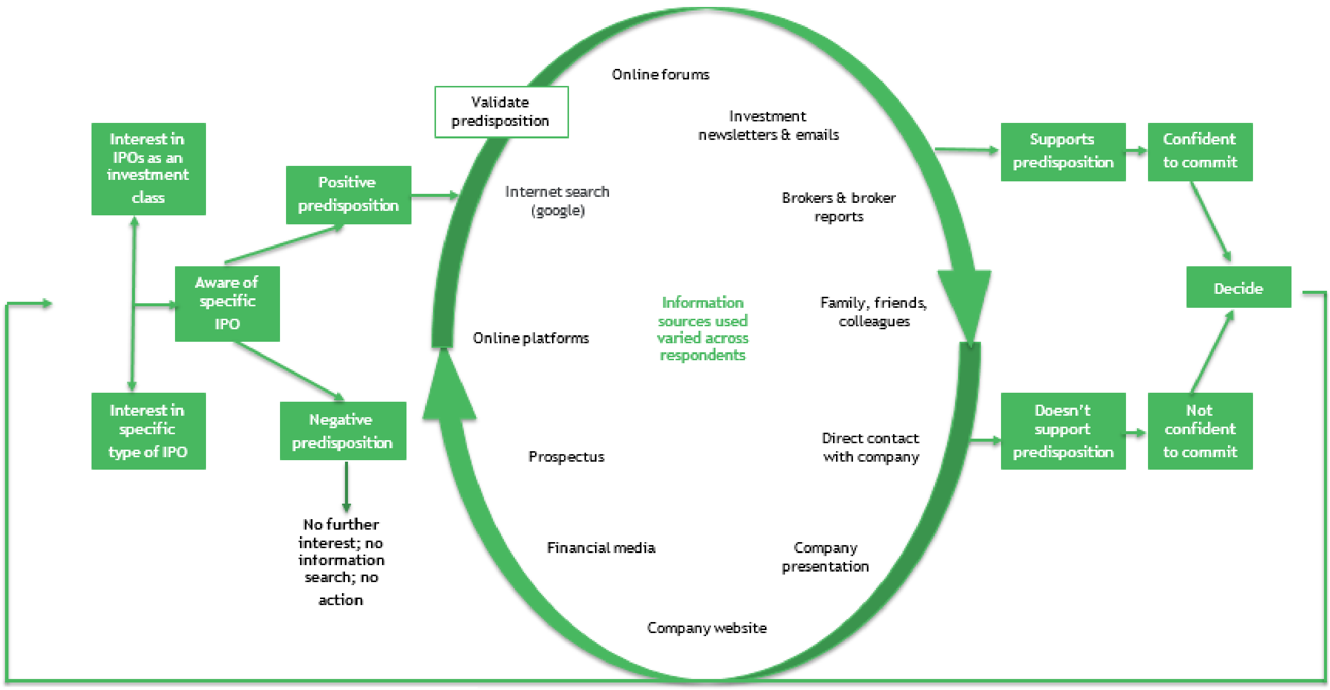
Figure 2. How participants generally described the inter-relationships between various information sources



Investors described a (largely unplanned) exploration path that may start with one source, which may lead them to another and then another. Many mentioned reviewing the prospectus early in the process and then coming back to it again, similarly people mentioned discussing an IPO with various friends and/or colleagues throughout.

The diagram below illustrates the path of evaluation. Consideration commences by either an in interest in IPOs as an investment class or awareness of a specific IPO. Once aware of a particular IPO most reported a positive predisposition was required to consider investing, which then typically warranted further investigation. Information sources were then consulted to validate this predisposition. Once they had sufficient evidence to support their hypothesis, investors would proceed, confident to commit. If the search did not support their predisposition they did not proceed.

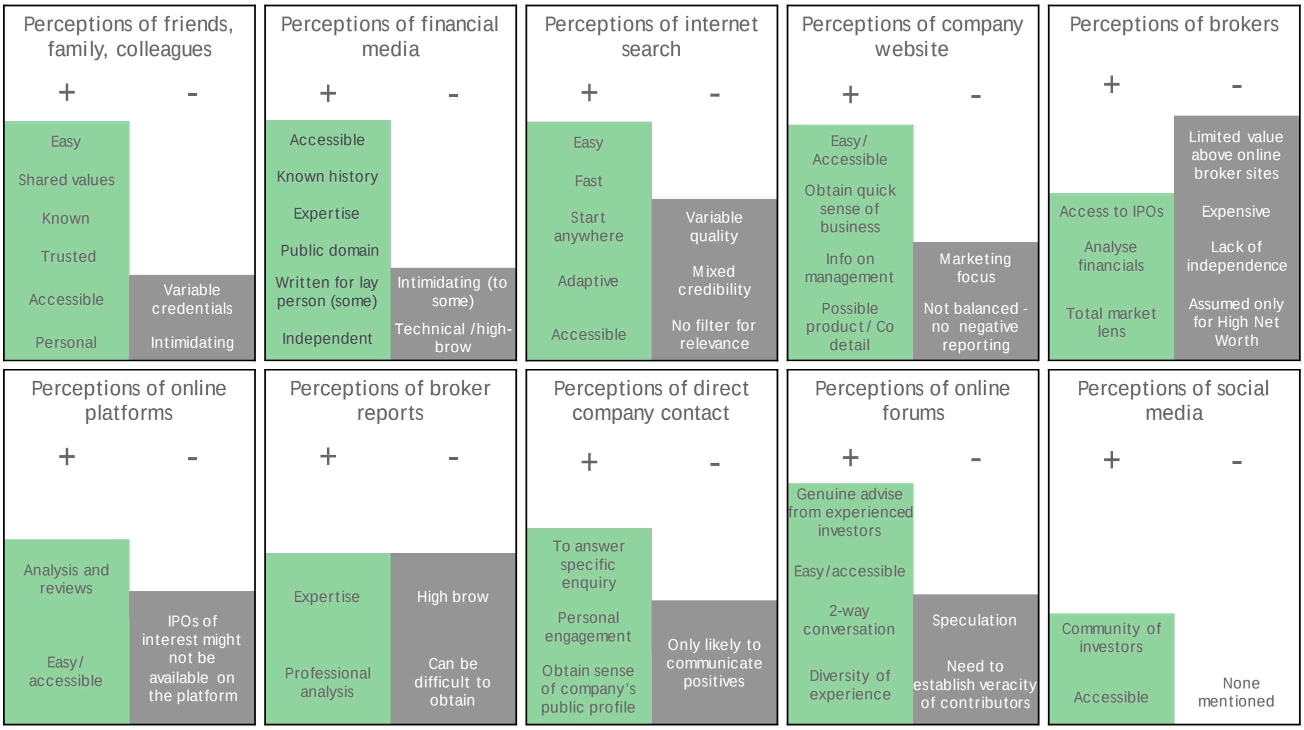
Figure 3. Model of reported overall approach to IPO assessment and purchase



Perceived pros and cons of different information sources

Investors' preferences for, use of and views about different sources varied widely. The figure below summarises the main sources mentioned in this research and the key advantages and disadvantages raised for each source.

Figure 4. Investor perceptions of common information sources accessed (excl. prospectus)



Overall, many investors appeared to preference sources they perceived to be credible and trustworthy. Perceived lack of agenda, apparent authority, and clarity of language tended to confer credibility and trust. For many investors, this included various financial media commentators, and for some it included certain members of specialist online forums and brokers reports that they had come to consider trustworthy over time.

Trust was also formed in other ways, for example most investors sought a personal connection, whether that be people they knew (e.g. family, friends and colleagues) or a commentator they felt comfortable with.

In evaluating information, investors simultaneously assessed the content, source and environment in which it appeared. For example, a prospectus may be evaluated on the body of information, the underwriter or lead broker, as well as the weight and quality of the printed stock. The relative importance of each (content, source and environment) for each information source subtly varied from one individual to the next, thus further emphasising the need to consider a range of elements in people's decision making, including emotional factors.

Role of the prospectus

Most investors were aware of the prospectus and recognised it as a key source of fundamental information but their use of it varied significantly, from person to person and from investment to investment. Most investors felt comfortable in ignoring (often large) sections of the prospectus, and focussing on those they considered to be most important, and / or which they felt they could understand.

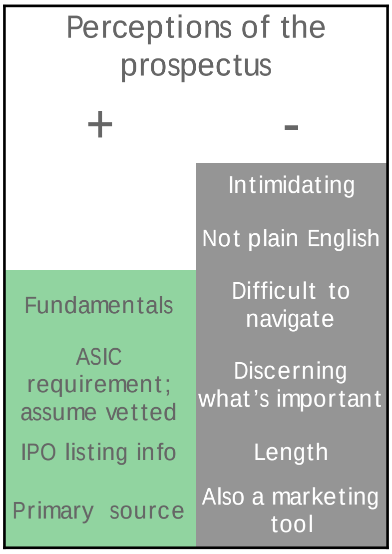
There was a widespread belief amongst investors that the prospectus was designed to serve two key functions:

- Meet statutory requirements by providing mandatory information on the IPO. This knowledge (although often vague) provided credibility and reassurance that base information must be correct – and subject to regulatory review. As a result, the prospectus was the most single greatest source raised among this sample – although it was not necessarily the most referenced source used.

- Promote the IPO to investors by presenting information in the most positive light possible. Most investors therefore thought it was important that they consider other information in addition to the prospectus – to get a more complete picture.

  The key benefits of the prospectus raised by this sample and illustrated below, were: it is the single source for listing information and fundamentals; as an ASIC requirement many assumed financials to be vetted by ASIC; and as the public face of the offering it provides a sense of the offer overall. On the downside, many find prospectuses too long, difficult to understand and navigate. And while they contain key fundamentals, their perceived dual role as a marketing document, means they also need to be viewed with caution and knowledge to accurately decipher.

Figure 5. Summary of views of the prospectus



Managing uncertainty, complexity and assessing risk

IPOs were frequently described as inherently risky, though the research revealed investors meant different things when using the word risk, beyond the specific investment risk. The term was also used to refer to the complexity of the decision, as well as to describe their own uncertainty about, making the investment decision.

Investors described a number of strategies when asked how they tried to mitigate risks they identified. One key concern that some investors considered a risk was the possibility of not having found enough information or missing a critical piece before making their decision. Key strategies that investors said they used to mitigate this risk included: doing more research, abdicating the decision to a 3rd party, or focusing on a known market.

Investors also described risks that were outside of their control such as how the market might respond; competitive response; market demand; the actions of the management team; etc. Reported strategies investors used to limit their exposure to these kinds of risk included limiting their investment size or planned length of investment, or using rules-of-thumb such as the degree of market interest (a proxy for certainty) or avoiding IPOs backed by private equity.

2 Research Objectives

The core objectives of the research were to understand:

- How investors first heard of particular IPO investments,
- What influenced their decision (or not) to invest;
- The use and impact of information sources (formal and informal information sources) and marketing and distribution channels, (and why);
- The role and usage of the prospectus (and why);
- How they assessed complex (and potentially conflicting) information;
- The proportion the IPO investment represents of their current investment portfolio;
- The channel through which they invested in the IPOs;
- The role/impact of heuristics and behavioural biases on their processes and choices.

3 Research approach

3.1 Research methodology — rationale, approach & limitations

People investing (or seriously considering investing) in IPOs make up a very small proportion of the population. The Australian Share Ownership study placed the incidence of IPO investors at 3.37% of the Australian population[2].

The study objectives, combined with the low incidence of eligible investors in the Australian population, indicated that a qualitative methodology was required. Qualitative research (working with significantly smaller sample sizes than quantitative research) enables in-depth exploration of events, behaviours and perceptions – providing insight into why people act, feel and think as they do, and identifying possible enablers for behaviour change.

The total sample for this qualitative study was 52 investors. Full details of the sample and methodology are contained in the appendix of this document.

3.1.1 Sample Breakdown

Stage 1 comprised qualitative research amongst a total of 28 investors (20 via one-on-one interviews and 8 via group interviews). All had either invested in an IPO within the previous 12 months, or had seriously considered doing so. All were the person responsible for making an investment decision in relation to IPOs, either singly, or jointly with their partner.

The sample comprised men and women, aged from early 30s to well into their 70s and included 11 High Net Worth individuals[3]. The level of experience investing in IPOs ranged from: engaged, but yet to invest; to those with over 30 years' investment experience (and participation in more than ten IPOs in that time). Self-identified level of confidence in making financial decisions ranged from '*extremely confident'* to '*limited experience and knowledge*'. Total portfolio size also varied greatly from $0 (yet to invest) through to $1m+. Further, the sample covered a range of ethnic backgrounds (including Anglo Saxon, Indian, Chinese, Greek, Malaysian and Ukrainian).

3.1.2 Approach

Research participants were recruited using several online panel providers, in addition to online advertisements placed by ASIC. To ensure a wide representation of views and approaches were included in the research several factors were considered when screening investors including:

- their investment in or investigation and consideration of investing in an IPO in the 12 months prior;
- whether this investment was via a SMSF;
- whether they invested alone or with others;
- their self-defined level of confidence in investing; and
- demographic factors including age, location and whether they qualified as a high net worth investor.

[2] Based on The Australian Share Ownership study, June 2015: 36% of Australians own listed investments directly, of whom 55% bought or sold in the last 2 years, 17% of whom purchased directly by a prospectus of a company listing on the stock exchange [p.19]. The latest ASX Investor Study published in May 2017 found that 37% of Australians own listed investments directly. Of those on-exchange investors who traded in the last 12 months, 65%used a non-advice broker or online trading platform, only 11% purchased directly via a prospectus of a company listed on the stock exchange.

[3] Defined as: an investor who has personally: invested $500,000 in company securities, has $2.5m in net assets, or had gross income of $250,000 for each of the last 2 financial years.

This qualitative research study was conducted in two stages from December 2016 – February 2017. The first stage constituted 14 depth interviews, 3 paired depth interviews and 2 group discussions, and were conducted face to face and via telephone.

Stage two consisted of 24 semi-structured interviews conducted via telephone. Investors across both stages were based in Victoria, New South Wales, Queensland, Western Australia and South Australia.

3.1.3 Limitations

The key limitations to be aware of in this study include:

- **Representativeness**: qualitative research provides depth of understanding however due to its nature and the sample size used, we cannot confirm whether the final sample (their characteristics, and their reported behaviours and perceptions) is representative of the total IPO investor population.
- **Impact of hindsight bias**: inherent in both qualitative and many quantitative research methods is that experiences and behaviours reported are as-recalled by investors and are not independently verified. Further, recall is limited by participant memory and will likely be impacted by hindsight bias. A highly-experienced team of researchers conducted the fieldwork: they are practised at unpacking what investors say and subtly eliciting the drivers and barriers that underpin claimed opinions and actions. There are a range of cognitive biases that shape decision-making and a key part of the qualitative researcher's role is to listen for (and gently probe) these so they can inform the findings.

4 Main Findings

4.1 What attracted investors to IPOs as an investment class?

The speculative nature of IPOs meant that almost all investors had some experience with established shares prior to first investing in an IPO. As a result, most considered themselves relatively adept in relation to the stock market (‘*knowledgeable, but not an expert*’), and therefore quite capable, in their minds, of assessing shares as potential investments.

All investors identified the primary attraction to invest in IPOs as the potential to make money. However, for some investors IPOs were also associated with significant emotional benefits.

4.2 Potential to make money

4.2.1 Getting in on the ground floor

Investors across the sample referenced companies that had listed at relatively low prices and gone on to achieve significantly higher share prices. As a result IPOs are often seen as a means by which investors could make a considerable profit relative to their initial outlay. The majority of investors anticipated holding IPO shares for the medium-to-long term, and thus this potential long-term growth was a key attraction to them.

In addition, some investors, particularly those with limited experience, noted that returns from term deposits and bank deposits were very low, in this context IPOs were seen as a good way to boost investment returns. These investors would be less likely to consider investing in IPOs if they could obtain an acceptable return from what they saw as less risky bank deposits.

In addition, because of their (perceived) lower cost on floating, IPOs were seen by some investors as a good way to enter a market sector of particular interest to them.

> *“IPOs are attractive because the market determines the value. You can get into a good company with long term prospects and a lot of upside to the price.”*

> *“The attraction of IPOs is the opportunity to get in early. When I look back at the history of some of the shares I have, I think it would have been great to get in when they first floated. CommBank is a classic example … I’m more conscious now if I can get in at an early stage (in some IPOs that do really well) that would set me up.”*

4.2.2 Dividends

In some cases, investors expected that the listing company would pay income via a steady stream of dividends, along with expected increase in the share price over time. This benefit was only expected to apply to certain types of IPOs, where established businesses (with an existing revenue stream and profit) listed.

4.2.3 Stag profit

Some IPOs were seen to offer the potential to make a “stag” profit: described as where the company’s shares list at a premium to the float price of the stock, enabling the investor to take a quick profit. The more experienced IPO investors in the sample were most likely to see this as a particular attraction of IPOs.

4.3 Emotional reward: excitement and ability to apply expertise

In addition to this financial incentive, for a considerable number of investors there were also emotional drivers that attracted them to invest in IPOs:

- Many spoke of the excitement of being involved in something new and different e.g. a new product/technology or an emerging market.
- Others admitted to being attracted to the intellectual stimulation of *reading* and ideally *beating* the market. They obtained high levels of satisfaction in identifying a successful investment. The additional challenge associated with assessing a successful IPO (relative to assessing established companies on the stock exchange) contributed to a higher level of satisfaction.
- Investors could also feel that IPOs required greater strategic acumen to 'pick' future successes — for some the greater perceived intellectual challenge involved was an important underlying motivation to invest in IPOs.

> *"It is the challenge as much as anything. Doing your research, working out your strategy, seeing if it pays off – the satisfaction is almost more of a motive than making money. There's no relaxing into it – you're never 'safe'."*

Attraction to IPOs as an investment class; Key themes

A principal attraction of IPOs mentioned by almost all, was the potential to make money – primarily identified via the opportunity to 'get in on the ground floor'. The potential to gain longer-term revenue from dividends or make a short-term stag profit were also cited. Note: It was universally acknowledged that none are guaranteed.

Additionally, was the thrill of being involved in something new or different or part of something happening at a point in time (e.g. technological innovation).

An intellectual challenge was commonly cited among the more experienced and confident investors - drawn to the opportunity to correctly read and potentially 'beat' the market.

4.4 How investors initially heard about an IPO

Initial awareness of IPOs was reported to occur in the context of a broader market interest i.e. the result of wider reading or conversations with others and not the result of a conscious search. No one, consistent or singular, source was nominated by investors in our sample for identifying or triggering potential IPOs. Most claimed wide readership of financial media, including a variety of financial newsletters. These — along with shared interest with friends, family or colleagues — were nominated as primary sources of awareness. Due to the range and overlapping nature of these sources, few could confidently recall the specific point of initial awareness.

A general interest in finance and the stock market, was common among the sample. This interest extended to readership of a wide range of publications. Examples included the *Australian Financial Review*; the financial sections of *The Australian*, *The Age* and *The Sydney Morning Herald*; *Money Magazine* and *Smart Investor*; and subscription services (both free and paid for) such as the *Motley Fool*, *Fat Prophets*, *Barefoot Investor*, *Switzer*, *The Bull*, *Intelligent Investor*.

A smaller proportion of investors were members of groups that shared perspectives and material on a wide range of financial matters including IPOs. In our sample, this included online forums such as *HotCopper*, *Whirlpool* and *The Barefoot Investor Facebook investor group*.

In a few cases, investors had shares in an existing Listed Invested Company (LIC). When the LIC management launched a new LIC via the ASX, existing shareholders were sent information about the new IPO. One of these investors also attended regular road shows (every 6 months) held by the LIC for their investors, and the impending listing of a new LIC was mentioned at one of these road shows. Further, when an existing company that was about to list had an established client base, it might send information to those clients advising of the impending IPO.

One High-Net Worth individual[4] mentioned an organisation (wholesaleinvestor.com.au) that provided a service for sophisticated investors only, introducing companies aiming to raise money with potential investors. The company arranged presentation sessions where around 10 companies planning IPOs presented a brief “pitch” to an invited group of potential investors. There was then the opportunity after the presentations for the investors to meet with the IPO company management. This was regarded as a very good way to get a quick understanding of a company and its potential value.

Many shared their interest in finance with family, friends and colleagues. Awareness of an IPO could come from any of these sources and was not the result of a dedicated search or conscious commitment to consider this investment class.

Rather than being a specific channel used to identify IPOs, these touch points fuelled or sparked interest in a particular industry or product.

> *“It can be a bit of a rabbit hole. I’ll read about some emerging industry that looks interesting and I’ll go off at a tangent, and when I’m researching that I’ll come across some companies that look like they’ve got really good prospects … but I haven’t necessarily heard of them before. It’s only when I do the research that I realise how big the market is, or how big they are.”*
>
> *“One of the bits of information I picked up in my reading was the demise of the Australian dollar … so I decided to invest in something more international.”*

Investors who used different information sources on a regular basis often had difficulty in recalling where they first heard about a specific IPO because it could be from any of their multiple touch points. Where they could remember where they first heard of a specific IPO, they identified the following sources (listed in order of approximate frequency of mentions):

- financial media
- family, friends, colleagues
- brokers
- investment newsletters/emails
- online forums and investment groups
- online broker platforms
- direct company contact
- regulatory websites, and
- advertising

These are discussed in more detail in section 5.6.

[4] Defined as: an investor who has personally: invested $500,000 in company securities, has $2.5m in net assets, or had gross income of $250,000 for each of the last 2 financial years

4.5 What attracted investors to pursue a specific IPO?

When they first heard of a new IPO, would-be investors' recollections revealed they frequently make an immediate judgement about whether they might be interested or not in investing. If their interest was not sparked at that initial point of exposure, their consideration often stopped at this point. If the IPO caught their attention, it was typically due to: personal understanding or interest in the company or sector; its perceived potential for growth or; expert endorsement or personal recommendation. Each of these factors in outlined in more detail below.

4.5.1 Investment and other preferences

Interest in an IPO could be triggered by pre-existing market knowledge, an interest or feeling of affinity for a company, industry or product type or the lure of an IPO with high growth potential.

Existing market knowledge — where investors felt they had a good understanding of the industry, the product and/or its market — could create a sense of confidence. Investors typically felt they could (better) assess the market potential of an IPO within a field of personal interest or expertise.

Some were interested in specific IPOs because they **liked the industry it operated in, and/or they liked the specific products or services offered by the company**, e.g. sport / technology enthusiasts showed a preference for the Catapult IPO; people interested in organic products were drawn to the Murray River Organics IPO.

Investors were often attracted to IPOs in markets they saw as having high potential for growth. Perceived drivers of growth identified by investors commonly included:

- new technology or new business model, where it was expected a product would be successful because it was introducing something new to the market — this could entice and feel exciting or deter people because of the risk of unknowns
- mining products where there was seen to be an increasing demand — e.g. lithium
- products/services aimed at growing sections of the market — e.g. aged care
- government owned assets being privatised — seen to offer good opportunities, due to what they saw as conservative float valuations.

> *"I expected that as a government organisation it would have had a lot of inefficiencies, so when it was privatised they could significantly improve the balance sheet … anything that is government owned and privatised is a pretty good punt."*

4.5.2 Trusted recommendation or endorsement

Investors also said an initial interest could be triggered by expert endorsement or personal or broker recommendation.

Some financial journalists and media commentators were seen to be very knowledgeable and hence were 'followed' by investors. Consequently, some investors believed that any IPOs these '**independent experts**' discussed in positive terms, warranted attention. Likewise, a positive discussion of an IPO in an investment newsletter or email was likely to attract attention. Notably, the latter were not seen as promotional in nature, and hence were felt to be relatively independent.

Some investors were attracted to a specific IPO because it was recommended by a **friend, family member or colleague** who was considered knowledgeable or known to have had successful investment experience.

Amongst the few who used brokers for their share trading, a recommendation from their **broker** was usually sufficient to draw their attention.

Attraction to specific IPOs; Key themes

- Existing market knowledge — was felt to enhance their ability to evaluate the quality of the investment opportunity
- An IPO in an area of personal interest provided an opportunity to support something they enjoyed/ believed in
- IPOs in specific sectors they felt represented strong growth potential (e.g. aged care)
- Endorsed by a trusted voice — whether personal to them (via a broker, fried or family) or a financial commentator they followed and respected

4.6 Decision-making approaches

IPOs were universally acknowledged to be complex, unique and inherently risky and investors approached the decision to invest using a variety of decision styles. Commencing with a positive pre-disposition (upon assessing an IPO to be worth considering), investors typically used information to confirm or challenge this.

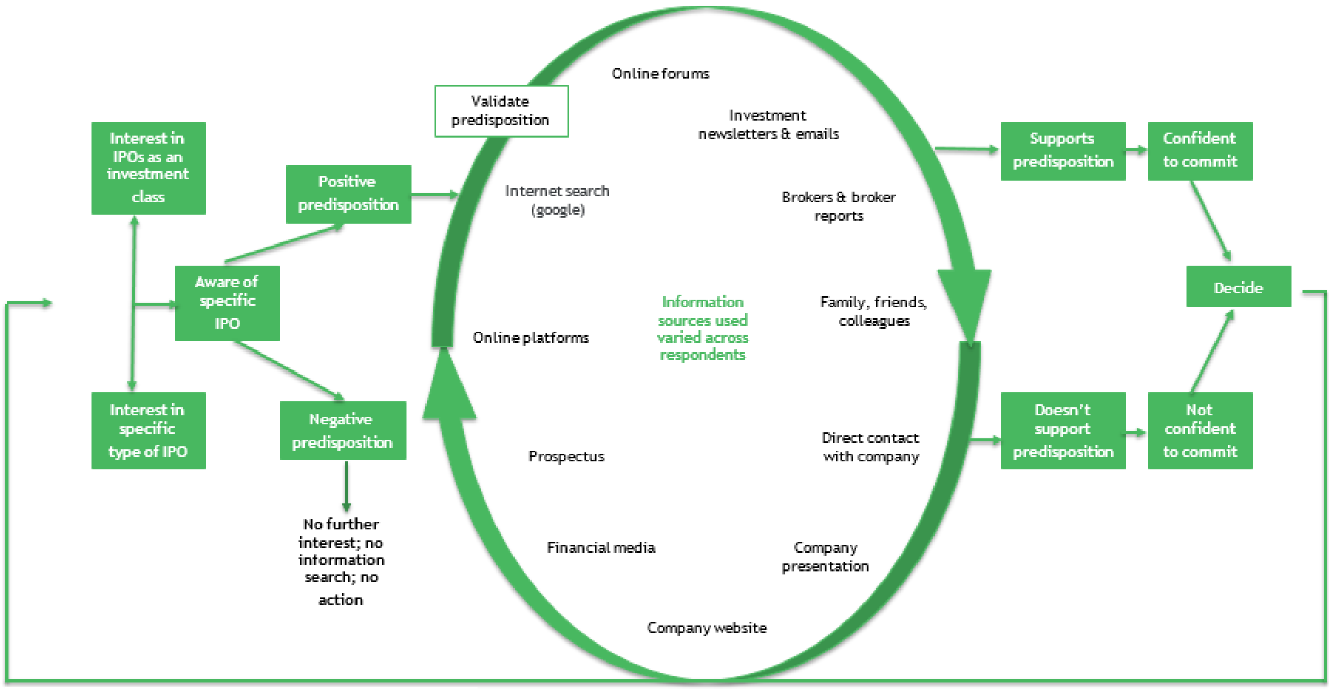
Contemporary understandings of decision processing point to the limitations of relying on what people say they do, compared to actual behaviour. Significant empirical evidence from the behavioural sciences has shown that financial decision-making is influenced by a range of contextual, personal, social and environmental factors, and these can interact to affect how people notice and respond to information and other signals in the course of making decisions.

Although we did not verify the outcomes of the investments discussed in this research, an analysis of investors' language and reporting of their behaviours suggests there may have been a number of behavioural factors, including heuristics, which impacted their decision-making. These processes were evident in the research process itself (e.g. interviews are by nature impacted by hindsight bias) and in the experiences investors conveyed (e.g. cognitive loads imposed by too much information and/or dense/complex information).

Across the sample, we encountered varying stated and unstated levels of experience, knowledge, risk-assessment and risk appetite. For many investors, the motivation to consider an IPO investment took the form of a positive predisposition, based on a feeling that this could be a good thing to do, which then coloured the approach to information gathering — looking for information/advice that reinforced and gave credence to their predisposition.

Others entered the information seeking stage with little emotional investment in the decision — adopting a more sceptical evaluation of information they came across. The diagram below illustrates this. Consideration commences by either an in interest in IPOs as an investment class or awareness of a specific IPO. Once aware of a particular IPO most reported a positive predisposition was required to consider investing, which then typically warranted further investigation. Information sources were then consulted to validate this predisposition. Once they had sufficient evidence to support their hypothesis, investors would proceed, confident to commit. If the search did not support their predisposition they did not proceed.

Figure 6. Model of reported overall approach to IPO assessment and purchase (repeat of Figure 3 in the Executive Summary)



In the face of significant, diverse and often complex information, investors may have relied on a variety of different heuristics or mental rules-of-thumb to help navigate their decisions. While this research did not specifically test for particular cognitive biases, our analysis suggests that a number were likely present - some of the more commonly observed are outlined below.

- Confirmation bias — suggested where investors tended to seek out information that confirmed what they already knew. To illustrate — if they had positive opinions of an IPO, they appeared more likely to ignore negative information, and vice-versa
- Outcome bias — a tendency to judge a decision by its outcome, rather than the quality of their decision at the time it was made. This is similar to hindsight bias – where we humans look back more favourably on events than was our experience at the time.
- Mere exposure effect — a tendency for investors to like that which they are familiar with, such as choosing to invest in an IPO based on familiarity with a brand name or product. People openly admitted greater comfort with and preference for companies they were familiar with.
- Anchoring — a tendency for people to rely heavily or to 'anchor' on an initial piece of information they receive about something (and make subsequent decisions based on that information) (e.g. the view of a trusted family member or a favoured analyst that investing in the IPO was a good investment) in making a decision.
- Availability heuristic — making decisions about the likely outcome of an event based on how easily an example or instance of such an event comes to mind (this can be affected by how recent or significant that example was). Where investors followed others – especially in high profile Blue Chip IPOs suggested this bias at play.

More specifically, we found that the way in which this sample variously spoke about their approaches to purchasing shares in IPOs could be described by six distinct decision styles. These decision styles were reflected in the process, content, nature and amount of information sought to make the decision to invest. Within each decision style certain cognitive biases may also have been at play.[5]

Decision making styles were broadly shaped by investors': level of knowledge /confidence in a particular sector, or in IPOs as a class; whether they or someone else made the decision to invest; the extent to which they undertook independent research; their appetite for risk and; the influence of others on their decision. In summary, we describe the decision-making styles as:

- 'Self-confident information hunter': Due diligence, backed by experience, creating a confidence to assess and act. High Net Worth investors tended to have a 'Self-confident information hunter' style.
- 'Informed but circumspect': Often 'Assessed opportunity based on research and gut instinct
- 'Opportunistic': Where a heightened sense of connection to an IPO often outweighed due diligence
- 'Blue chip confidence' as proxy for (relative) safety
- 'Follower': Decisions to invest based on the actions of another
- 'Considerers': Inability to reconcile risks presents a barrier to investing

We note that investors adopted different decision-making styles depending on circumstance. The most diligent researcher for example, could 'drop their guard' for a blue-chip stock or impulse buy based on a 'gut instinct'.

A description of each decision-style, and a case study for each is provided overleaf.

[5] Heuristics or cognitive short cuts in decision-making are commonly used to address: information overload; lack of understanding; need to classify or remember concepts and/or the need to act within a limited period of time. These heuristics can lead to cognitive biases that influence investor decision-making.

Decision Style 1: ‘Self-confident information hunter’ — Due diligence, backed by experience, creating a confidence to assess and act

This style of decision-making was common where investors had solid sector understanding and/or IPO experience, coupled with significant (they claimed) research into the IPO and company. The opinions or behaviours of others (brokers, friends, family, colleagues etc.) were typically of limited influence.

People who exhibited this decision-style tended to discuss their assessment of IPOs in very deliberate terms: they saw themselves as extremely capable, and were likely to have a great deal of confidence in their decisions. They claimed to have highly considered investment strategies, and were able to articulate clear and identifiable reasons for wanting to invest in their nominated IPO. Many had developed their own evaluation criteria over time, and used this as the basis for their IPO investment decisions.

They liked to talk about these as their ‘guiding principles’, but were quick to argue that they were not locked into a set approach, and adapted in response to the market conditions of specific aspects of each IPO they examined. They exhibited considerable trust in their ability to make sound decisions, based on their own criteria and were often sceptical of particular sources of information or advice. While they saw themselves as effective decision makers, their level of confidence and inclination to rely on carefully selected set of ‘expert sources of information’ did suggest a degree of *Confirmation bias* at play.

These people enjoyed investing and some appeared to be quite heavily invested psychologically: being good at these decisions appeared to be an important component of how they saw themselves. Researchers observed emotional drivers at play —notably a desire to accurately read and respond to, or as some said '*out-smart*', the market. High Net Worth investors tended to have a 'Self-confident information hunter' style and were more likely to report intellectual stimulation as a key motivation to invest in IPOs.

Case Study: Self-confident information hunter decision style

Investor background: Tim is in his early 40s, and has been investing in the stock market for over 20 years, having developed an interest in investing while still in his teens. He is a qualified accountant, but now works in IT.

He has built up a stock market portfolio of around $600,000. He initially became interested in IPOs as an investment category around 15 years ago, when some companies in which he owned shares spun off new companies through IPOs. These seemed to offer good investment opportunities, and he now invests in IPOs as a key part of his overall investment strategy. He is typically actively considering one or more IPOs at any time.

Sourcing information: Tim is a voracious consumer of financial media. He regularly uses the ASX, ASIC and OnMarket BookBuilds websites as sources of information about upcoming IPOs. He has (non-paying) accounts with multiple brokers, which can provide him with access to broker reports. Tim is an active member of the HotCopper stock market forum, which he sees as a good way of sourcing information about industries where he does not know a great deal, from people who have experience and knowledge of those industries.

> *“I expected that as a government organisation it would have had a lot of inefficiencies, so when it was privatised they could significantly improve the balance sheet … anything that is government owned and privatised is a pretty good punt.”*

Research and influence of others: Tim gathered as much information as he could from multiple sources, this included using all the sources listed above, reading the prospectus, contacting the listing broker and the company directly to obtain further information. Confident in his ability to gather and assess information, he listens to the opinions of others, but does not rely on purchase advice from anyone else.

The decision: Tim is confident he can assess the information available and make a good decision more often than not. If he cannot clearly see the potential in a particular IPO, he does not buy shares, but he accepts that some purchases will not be successful. His intention for holding shares varies considerably depending on his reading of the market, and is willing to change his plans if the market acts contrary to his expectations. If he believes there is a lot of “hype” around a particular IPO, he may buy in and sell quickly, as he expects the share price to spike on listing and then decline. Where he thinks there is good long-term potential he buys shares with the intention of holding them. If there is a price spike he may sell and then re-purchase shares on a price drop.

Future purchases: Tim enjoys the excitement and intellectual challenge of the stock market, and plans to continue investing, both in the established stock market, and in IPOs.

Decision Style 2: 'Informed but circumspect'. Assessed opportunity based on research and gut instinct

This approach was adopted where investors described relying on a research process to assuage their concerns or lack of market or sector expertise, but then weighed this against their accumulated experience to form a gut instinct for whether they knew enough or what they found (or understood) was sufficient to act upon. Investors adopting this decision style recognised that many factors could influence the success or failure of an IPO: they therefore sought multiple perspectives to assist in coming to a decision about whether to invest. Investors adopting this approach were more inclined to seek out and accept information from external sources (than those exhibiting a 'Self-confident information hunter decision-style).

Lack of expertise among some exhibiting this style meant their ability to evaluate the real value of data could be a challenge. We observed possible evidence of *Selective Perception* and *Confirmation Bias* as investors recalled accessing and assessing information to support their positive predisposition towards a particular IPO.

Case Study: Informed but circumspect decision style

Background: Diane is a professional in her early 50s, with a small portfolio (between $100,000 to $500,000). She has been investing in shares for 18 years — favouring blue chip shares. She is interested in business and financial matters, and reads these sections thoroughly in the press (e.g. AFR, The Age, etc.).

She is fairly self-sufficient in selecting shares and usually purchases through a personal broker. While she had a good basic understanding of IPOs, she considered herself to have moderate experience, only having purchased 4 or 5 over the last 18 years.

Sourcing information: Diane learned of the most recent IPO she considered through financial press and online forums but she also worked in the same industry as the IPO, and was confident that she knew the right questions to ask to ensure that the company had growth potential. She particularly looked out for comment from specific, well-known financial media personalities (e.g. Noel Whittaker). She also read through the prospectus; and believed this was very important. Diane used all information sources concurrently, with information collection happening in no particular order.

> *"I'm looking for information provided (in the prospectus) that is verifiable… There are always risks buying into start-ups …there are some prospectuses that are very glossy, they have information about their projections, but they don't explain their underlying assumptions. And if you don't understand that, how can you understand if it's a risk worth taking?*
>
> *I've learnt from previous experience not to simply rely on the prospectus. It has been a process of learning as I've gone, they haven't all been successes but I learn more each time…. You reach a stage (in the investigation process) where you feel you know enough to make a call."*

Research and influence of others: She liked the idea of supporting small Australian start-up companies, but was influenced by press and online forums, particularly where she felt the author had strong credentials. While she acknowledged a risk in buying shares in an IPO, she tried to reduce this as much as possible by being very thorough in her investigation of the IPO prior to making her decision (e.g. claimed to read the prospectus thoroughly and searched for articles on the IPO).

The decision: She concluded that this particular IPO was too speculative, and decided not to proceed. While she felt that the information in the prospectus was sufficient, lack of detailed information in prospectuses in the past had been a key reason for her not to proceed with other IPOs.

Future purchases: Diane is likely to purchase IPOs in the future, but it depends on whether she comes across an IPO in the press or online forums, which is in an industry where she feels she has sufficient expertise to determine the key risk factors, and which she assesses as offering good investment prospects. Diane is quite cautious about investing in IPOs, as she regards them as relatively risky. She will only purchase shares in an IPO where she believes there is a good chance of success.

Decision Style 3: 'Blue chip confidence' as proxy for (relative) safety:

This decision style was the default by some investors with a declared low appetite for risk, but also adopted by others in our sample for particular IPOs. The high-profile nature of blue chip IPOs (e.g. Medibank, Telstra) generated significant media and commentator coverage which most investors felt created a sense of transparency and certainty. Buying shares in these IPOs was seen as more akin to buying shares in an established listed company, and were accordingly rationalised by these investors as 'less risky'. The greater security often sought — or believed to exist — in these higher profile IPOs is possibly a sign of *Bandwagon effect*, a phenomenon whereby the rate of uptake increases the more something has been adopted by others.

Case Study: Blue chip confidence decision style

Background: Paul is 32 years old. He demonstrated a long-term interest in the stock market, commencing when his father gave him some shares when he was 20 years old. Although he held those for some time, he eventually sold them when he needed the money. He has since been interested in stock market investing, but been constrained by lack of funds to invest.

Sourcing Information: Paul enjoys reading the AFR, but does not regularly use any other sources of investment or financial information. Of the IPOs he has considered, he first read about each in the AFR.

Research and influence of others: Paul's father suggested to him that he should consider investing in Medibank when it first listed. At the time, he was also writing a thesis on health economics, so had a lot of secondary data available. He conducted some research on the market, including competitors, and discussed it further with his father. He also looked through the prospectus, although he found it quite difficult to understand because he wasn't sure what information he should be looking for.

> *"I know (the prospectus) is something I should look at, but I wasn't clear on how to read and interpret it. A lot of the information I didn't understand the first time I looked through it."*

The decision: Paul felt buying shares in Medibank was fairly safe, as it was a very large, well known company, and he felt he understood the industry well. Paul has since considered purchasing shares in several other IPOs of much smaller companies, which are involved in new and emerging markets, but has decided each time against the purchase, as it seemed too risky to him.

Future purchases: Paul is likely to continue to look at some IPOs as potential investments because he enjoys reading about companies in new industries. However, he is extremely cautious about actually investing, and he appears unlikely to invest in further IPOs unless they are of large high-profile companies, or unless he receives a strong recommendation from someone he trusts (such as his father).

Decision Style 4: ‘Opportunistic’. Where a direct or heightened sense of connection to an IPO often outweighed due diligence:

In these cases, the decision to invest in an IPO was based on advice or the influence of someone considered to be highly knowledgeable in relation to that IPO (or the opportunity it represented). Investors subsequently committed to an IPO based on a belief that they had an inside track on a real opportunity. The source of their intelligence might have been a trusted broker; an employee of the listing company; or another professional with a connection to the IPO. They typically had great confidence about their decision, despite lack of significant — or any — corroborating research. Within this decision style there may have been evidence of the *Anecdotal Fallacy* where it is easier for people to believe someone's testimony as opposed to understanding complex data and/ or *Anchoring*, where people are over-reliant on the first piece of information they hear.

Case Study: Opportunistic decision style

Background: George is aged in his early 60s and semi-retired. While he has had a small number of shares for many years, he did not really become interested in investing in the stock market until 7 years ago, when he was made redundant and had a redundancy payment to invest. He set up a SMSF at that time. Because he is close to full retirement, his key focus is on protecting his assets, and generating income.

Despite his widespread reading, George is not confident of his ability to successfully select shares which will appreciate over time, and which pay a reasonable dividend. He feels in the past he has made several poor investment decisions, and has now decided that LICs are the most appropriate investment vehicle for him, as he feels they reduce risk by providing exposure to a wide range of shares, and are managed by experts.

Sourcing information: George has the time and enjoys reading widely. The sources he referenced include financial and economic media, subscriptions to several investor services, as well as various free investment and economics newsletters. He identified an interest in understanding more about financial markets, and the wider economic factors that impact the market. Although a cautious investor, he is interested in the idea of IPOs, and has subscribed to OnMarket BookBuilds to find out more about them.

Research and influence of others: When he learnt of a new LIC listing, run by an investment manager that he has already successfully invested in, he was very interested. He initially heard of the IPO when he attended the 6-monthly presentation run by the investment manager, and was quite excited by the prospect. He then looked through the prospectus, and on the company website.

The decision: George really needed little convincing that this LIC IPO represented a good investment opportunity, because he was satisfied with his previous LIC investment with this investment manager. He then made the purchase decision quite quickly, and regarded it as a low risk decision.

Future purchases: George is still interested in the idea of investing in IPOs, but is very cautious. He is much more likely to consider future LICs, managed by investment managers with a good track record, than an IPO for an individual company. He sees LICs as offering a de facto way to invest in good IPOs, where he does not have to personally assess the value of the IPO.

> *“I don’t pretend to be an expert and that’s a lot of why I’ve come to the idea of LICs. Those people are experts. If there’s an IPO coming up they think is good value, they’ve got the opportunity to invest in it. They can make those decisions and generally they’re doing a good job of it.”*

Decision Style 5: 'Follower'. Decisions to invest based on another's recommendations:

In the case of the *Follower* style of decision-making — purchase was largely impulse based, following the actions of a friend or colleague. The decision typically involved only a small amount of independent research (if any), and heavy reliance on the actions of the referrer/influencer — suggesting the presence of *Bandwagon effect* - the tendency to believe things because many others believe the same. Unlike the *Opportunistic* decision style – where investors felt confident to act on limited intel (with an exaggerated confidence in their knowledge of the IPO at hand), the *Follower* openly admitted abdicating the decision to invest to another – who they deemed highly knowledgeable: thus, they invested by proxy.

The language used around this decision style also reflected this abdication. This decision style did not account for many of the IPO assessments recounted in this study, but it was a distinct approach — adopted where people with low knowledge or experience in IPOs combined with high trust in others and a medium appetite for risk. Note some experienced investors more typically demonstrating the 'Self-confident information hunter' decision-style spoke of rare occasions when they came across an IPO that was small but exhibited what they saw as real opportunity to do well. In these circumstances, rather than conduct extensive research they may simply follow their hunch and just invest — limiting the total invested to an amount they are comfortable to lose.

Case Study: Follower decision style

Background: Arjun and Ashika, a couple in their thirties, both professionals in the finance industry. They already had shares, Arjun having bought his first shares with his first pay in his first professional job. Both were keen to expand their portfolio and liked the idea of investing in an IPO.

Sourcing information: Both Arjun and Ashika regularly read the financial press as part of their professional roles. They acknowledged that they had followed a number of high-profile IPOs in the media, but not delved into specific information regarding IPOs. They often discuss investing with both family and colleagues.

Research and influence of others: Arjun's father - a keen investor with over 40 years' experience had mentioned the upcoming Medibank float and they discussed it as an investment opportunity for them. They both looked at the prospectus briefly, but knew Arjun's father was thorough in his research and not inclined to take uncalculated risks.

The decision: After further casual conversation with colleagues and following the coverage in the media, they decided to follow Arjun's father's decision to invest, without doing any further investigation themselves.

> *"We didn't have time to really look into it ourselves and we knew (Arjun's father) had done the research, so we just did it – but we are both accountants and we have an understanding of what is involved.*
>
> *I was anxious not to miss out, I wanted to grow our portfolio and this seemed like a really easy way to do that.*
>
> *In the future, we will most likely do more of the legwork ourselves, but I'd still talk to my dad as well."*

Future purchases: Both Arjun and Ashika were confident that they would invest in another IPO, but would need to ensure they had the time to consider it fully.

Decision Style 6: 'Considerers'. Inability to reconcile risks presents a barrier to investing in IPOs:

The final notable decision-style was characterised by inability to commit to purchase, despite (claimed) medium to high-levels of investigation. While level of investment experience (in other investment types) was mixed, their experience in IPOs was typically low or nil. Their language indicated a desire to make *the right* decision in this instance, which propelled them to a sense of needing to be fully informed and certain without hesitation. As a result, incomplete or conflicting data thwarted and frustrated these would-be investors. This approach suggests *Information bias* — where people believe more information will increase decision accuracy — creating a perpetual sense that more information is needed to make the right decision. Considerers seemed to approach IPOs as an especially risky and difficult investment, burdened by complexity and uncertainty.

Case Study: Considerers decision style

Background: Matthew is a young professional in his early 30s. He is interested in investing in the stock market, but has not yet done so. While interested, he does not have a clear investment plan. Rather, he sees shares as a "good way to make money", without being clear whether that would be through buying and selling shares, holding shares longer term, or deriving income from dividends.

Matthew believes IPOs represent a particularly good investment option, because he has read of cases where the share price has risen very quickly.

Sourcing information: Matthew felt it was difficult to obtain information preferring that which was readily available. He was unsure what to look for, and how to assess the information to determine whether an IPO represented a good investment or not. He was somewhat mistrusting of information provided by the listing company, but did not search for information elsewhere.

> *"I'm new to investing, so it's difficult to know what should be there and what you should be looking for. … I look at this sort of information (in the prospectus), but I don't trust it. … it can be tough to get financial information… I find it very difficult to gauge, they can be so sentiment driven and you have to gauge sentiment, not just the fundamentals."*

Research and influence of others: Matthew was not sure how to go about investing in the stock market, and was prompted to consider an IPO by a friend who knew he was interested in investing. He looked at information given to him by his friend, at the prospectus, and at the company website, although he reported that he did not read any in detail.

The decision: While he was interested in the IPO, Matthew lacked the confidence to make a purchase decision. He did not actively decide against the IPO as an investment; rather he postponed making a decision until it was too late.

Future purchases: Matthew expressed interest in investing in IPOs in the future, but seemed to lack the confidence to make an investment decision.

Decision styles; Key themes

- It was evident in this sample that a variety of decision styles were employed in evaluating investment in IPOs. The decision style adopted depended on a variety of factors including: level of experience with, and knowledge of, the stock market overall and IPOs in particular; appetite for risk; propensity to be influenced by others; and their confidence in their ability to assess making an investment decision.
- These decision styles were reflected in the way individuals obtained information about an IPO, evaluated that information, and decided whether to invest or not invest.

4.7 Information sources: access, assessment and degree of influence

A wide range of information sources and perspectives were referenced by the sample. Most felt there was ample information for the majority of IPOs although inability to find some information was not uncommon (especially for, but not limited to, smaller and less well-known offers). Potential investors commonly said that what they wanted out of information gathering was 'an understanding of the business and the market' including 'financial information'. Despite the common objective, criteria for a good understanding of each varied significantly.

4.7.1 Accessibility of information

The majority of the sample believed that a large amount of information was available for most IPOs, and that they did not have any trouble finding the information they were seeking.

> *"When we look at investing in an IPO, it is usually one of the major ones on the radar, so a lot of people know about it and usually there is a lot of information out there."*

The exception appeared to be some smaller IPOs and when less experienced investors were trying to source particular information and didn't know where or how to source this information (e.g. background on the proposed management team).

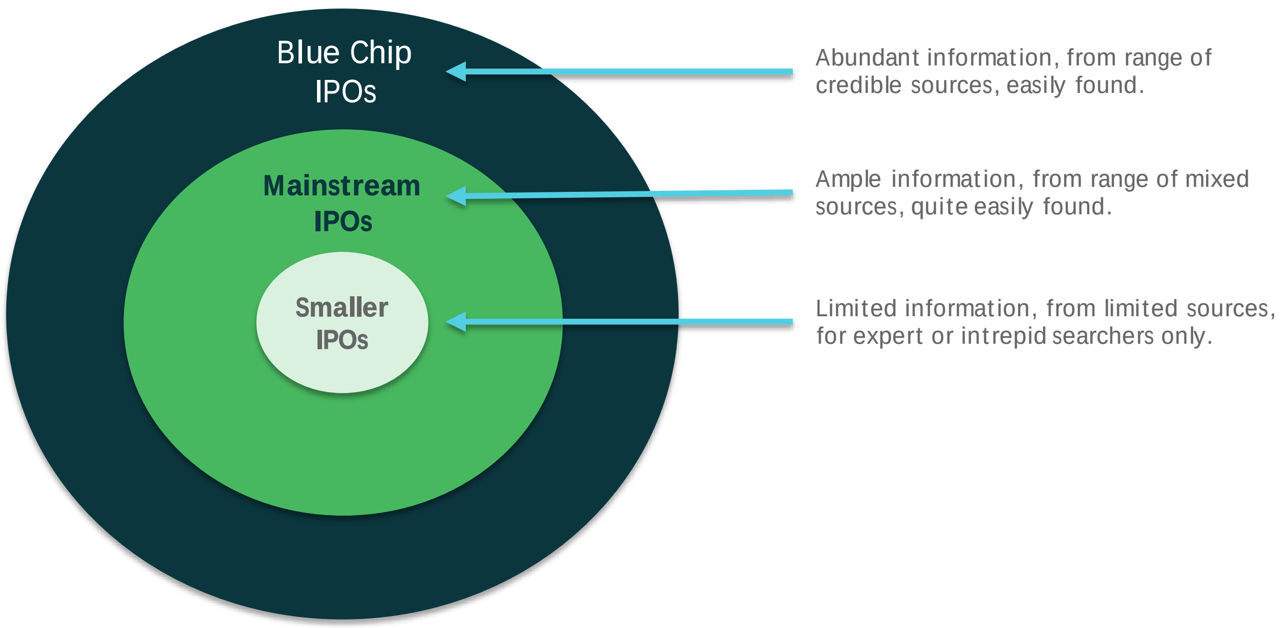
> *"It's surprisingly easy to get information. It's getting the right sort of information (that can be difficult). It can be hard to get information on management and their background - who they've worked for; their performance in other roles; whether they sit on other boards. That information can be quite difficult to find."*

> *"With a lot of the smaller companies, that don't have the business track record...yeah (it can be hard to find independent information)."*

> *"I have had trouble in the past finding independent information – I had just gone to the broker for independent information. But they have a vested interest."*

In cases where these investors had not been able to find the information they wanted, they had made a call as to whether or not they considered this information to be 'critical' or simply 'nice to know'. In some instances, they talked about adopting a reverse logic — i.e. that if something were a significant issue it would have likely emerged: thus assuming 'no news is good news'. Where information was deemed 'critical', but hard to find, many reported they would not proceed with that particular IPO.

Figure 7. Perceptions of the available information pool



4.7.2 What information are potential investors looking for

Most investors noted that exploration was driven by a desire to "understand the business and its market".

What 'the business and the market' meant differed from person to person. The degree of (new) knowledge required to reach the acceptable level of understanding depended on the base market knowledge as well as the perceived complexity of the market, perceived risk and appetite for risk.

Having said this, typically, this umbrella term was used for fundamentals (e.g. what the company produced, by what means, for what markets) as well as for other factors people believed could influence the success of the company (e.g. the uniqueness of the offer, and how it was differentiated from its competition, vulnerability to replication; short or long-term growth, the management team etc.). But how to understand that and what sources were used varied.

Many commented that the parameters required to understand a business could vary from one IPO to the next. In fact, they said this uniqueness was what made IPOs difficult to assess. The extent to which it could be difficult to anticipate all the factors one should consider made IPOs a speculative investment.

This also appeared to make for unique search processes. While some had a mental checklist they used to guide their search (including ratios and rules of thumb on key financials), the majority started with no absolute target of what information they would need or what elements would be required before they would stop.

> *"You are becoming a part owner in the business. You wouldn't just walk past a retail store and stick your head in and say I'll invest $10,000 in the business. I think it's important to know as much as you can."*

> *"It is not enough to look at what the business model is or the size of the projections, you have to look at what the competition is doing and where the potential is long term, so I looked at ABS statistics and did analysis of other (competitor) companies as well and not just here but overseas because the threat may not only be local."*

"You have to see, know, feel the product. You wouldn't buy property without looking at it, why would you buy a stock you don't know..."

Financial information was also always mentioned as essential to decision making but this too was an umbrella term that was used to denote different things. Some used this to mean the balance sheet, financial equity, forecast turnover and profitability; while others used it to discuss the IPO itself (e.g. capital raising, the application price, share allocations etc.)

Additionally, investors commonly discussed seeking details of the offer (amount of funds looking to be raised, opening and closing dates, application price etc.) as well as how money was to be spent. Company history, the management team, key shareholders and the degree of media hype were also frequently mentioned due to perceived potential impact on the interest in and/or success of an IPO. A full list of information sought, where it was found and why it was important is provided in the appendix of this document.

What information investors are looking for; Key themes

- To assess the potential investment opportunity of an IPO, almost all claimed to want to understand the business and the market in which it operated. What this entailed was highly variable and largely subjective.
- Nearly all included some financial information in that understanding – but the extent of this and their ability and confidence to decipher also varied.
- While more experienced investors were more likely to reference a mental checklist in their approach to exploration, the approach recalled by many across the sample appeared more organic than systematic.

4.7.3 Sources used and assessment of their veracity

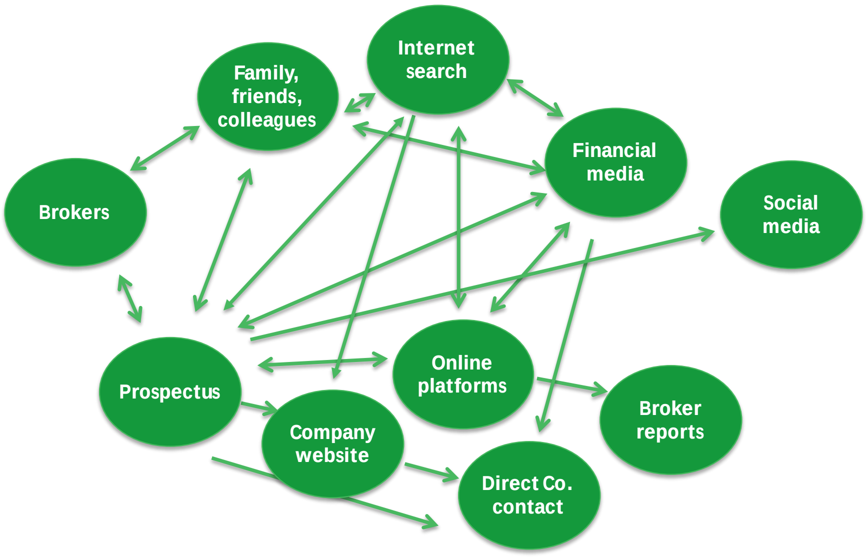
Investors said they accessed a wide range of sources when considering investing in an IPO. While some relied heavily on few or even a solo source, others claimed to use many sources, attaching varying degrees of importance to each. For most, no single source was without limitations, driving a preference for multiple touch points of information. In particular, some investors noted that different sources were easier than others to use or understand. The number of sources available and the reported differences in ease of use may indicate that investors looked for information that reduced their cognitive load with respect to making the investment decision. The ultimate suite of influences (perspectives, data and information) varied from one person to the next (and reportedly — one IPO to the next) with most investors ultimately reaching a sense of satisfaction rather than a completed pre-determined checklist.

The majority of investors did not have set sources that they used each time they wanted to assess a stock market investment; further, there was no linear process of information gathering that investors stepped through (even among the most experienced in the sample). Rather, the process was more akin to a matrix, where various sources were used to obtain information, and the individual pieced together a "story" about the IPO that they considered to be sufficient to enable them to decide if they wanted to invest.

Investors described a (largely unplanned) exploration path that may start with one source that led them to another and then another. Many mentioned reviewing the prospectus early in the process and then coming back to it again, similarly people mentioned discussing an IPO with various friends and/ or colleagues throughout.

The diagram below illustrates the non-linear interrelationships between various sources, based on how study investors described their recent experience. There is no singular starting point or end point and one information source may lead to numerous other sources, demonstrating that no two exploration paths may be exactly the same.

Figure 8. How participants generally described the interrelationships between various information sources (repeat of Figure 2 in the Executive Summary)



4.7.4 Sources of trust

Many investors appeared to preference sources they perceived to be credible and trustworthy. Attributes such as perceived lack of agenda, demonstrated authority, clarity of language, etc. were almost universally offered as cornerstones of credibility and trust. Consequently, sources that investors considered as rating highly on these measures e.g. financial media, specialist online forums etc., were highly regarded and elevated above other information sources in decision-making.

Trust was also sought by most through a more personal connection, whether that be people they knew or a commentator they felt comfortable with.

This demonstrated that while all seek trust, it is not an absolute construct. In this instance, objective markers such as (perceived) *independence, expertise, transparency* seemed to co-exist quite comfortably with subjective markers such as *someone like me; expressed in a way I understand; compatible with my worldview.*

Further, in evaluating information investors simultaneously assessed the content, the source and the environment in which it appeared. For example, a prospectus may be evaluated on the body of information, the underwriter or lead broker, as well as the weight and quality of the printed stock. The relative importance of each (content, source and environment) for each information source subtly varied from one individual to the next, thus further emphasising the need to consider a range of elements in people's decision making.

4.7.5 Common sources of information

In general investors were looking for information that would support their predisposition towards investing in a specific IPO, or that would provide them with evidence as to why they should not make that investment. Likelihood to access was significantly impacted by ease of obtaining and understanding. (Note: The prospectus is discussed in detail in the next section.)

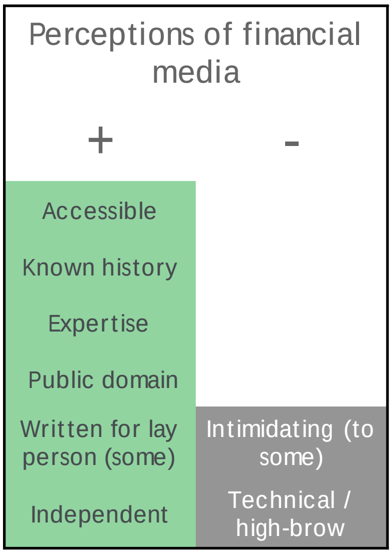
Financial media

Covering a broad number of publications, financial media was frequently declared as a core element of any IPO consideration.

As already discussed, investors tended to regularly read financial press and magazines and find this enjoyable. As a part of their existing routine it meant they did not have to go to any extra effort to access information via this channel.

In addition, as mentioned above, people tended to feel comfortable with select financial journalists and commentators who reflected their world-view and to their mind had a proven track record. This was to the extent that some investors referred to journalists/commenters as ‘financial advisors’. They provided a valued ‘reality check’ and a supportive view for an IPO that someone was interested in could be a powerful driver to purchase. Having said this, non-regular readers or those without a personal relationship to particular journalists/commentators still accessed this media on an ad hoc basis.

Figure 9. Summary views of financial media



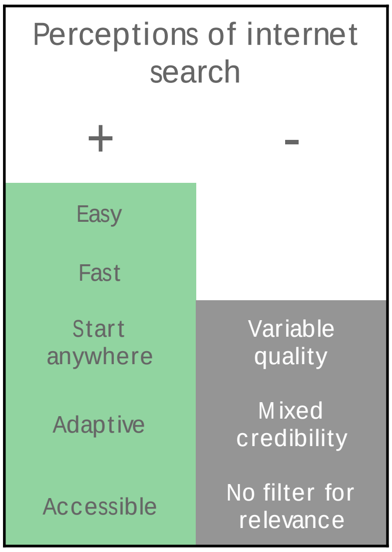
“What I do now is I look for financial advisers out there who I trust … who speak in plain English … if they have red flags I walk away … I trust some of the news commentators, financial people who I follow. Whenever I saw them talk about an up and coming one I made note … Ross Greenwood … there are a lot of names that spring up.”

Internet search (Google)

Most investors undertook some search via the Internet at some stage. They typically started by entering the name of the listing company to see what information came up and looking for clues as to what factors they should be considering.

Some then conducted more detailed searches, including on the management team, competitors or the market. A minority went beyond Google to specific sites — for example, one participant who was considering an IPO of a company that specialised in developing property specifically for the baby boomer market checked figures provided by the company against population figures from the ABS.

Figure 10. Summary views of internet search

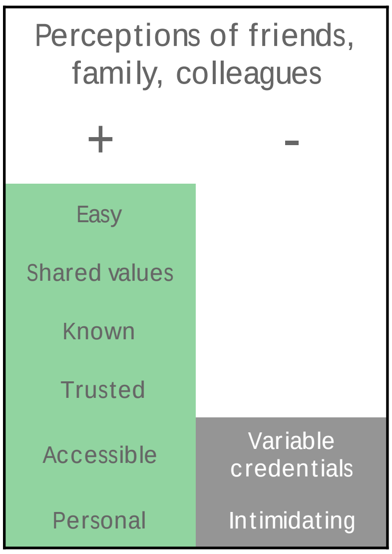


Family, friends and colleagues

In some cases, a recommendation from a friend or colleague was the key or even sole factor in a decision to invest in a specific IPO. For most investors however, discussions with friends, family or colleagues were more casual, and regarded as just one of a number of forms of information gathering. This included connections with a specific interest or experience in investing, with whom they had had specific discussions regarding investment options including IPOs. Interestingly some mentioned individual biases needed to be accounted for (without acknowledging any in themselves).

A few mentioned using personal contacts to try to obtain information that might not be easily available about IPOs and their management.

Figure 11. Summary views of personal connections



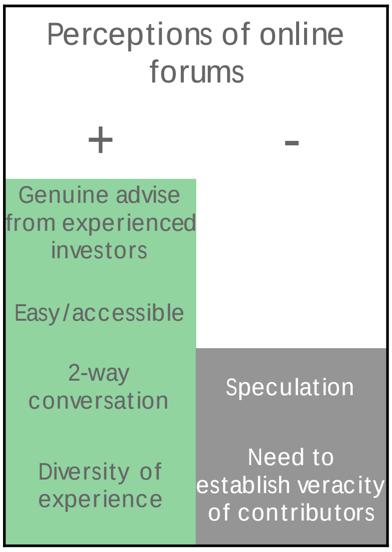
"My dad has been investing for 40 years, so I always see what he thinks… my brother-law is also a keen follower of the market so I like to get his take – but I wouldn't necessarily go with what he thought."

"His parents had done all the hard work -so we went along with that."

Online forums

While only a small number of investors used online forums, those who did, saw them as excellent sources of information that enabled them to quickly obtain opinions from a number of people. Forum users cautioned that it was important to assess the value of individual forum investors, and completely disregarded the opinions of some members. However, these investors said that over time they learnt which members were knowledgeable and had credibility in relation to assessing investments. Once knowledgeable and credible members were identified, they could be quite influential both in the type of information considered, and in the decision on whether to invest in a particular IPO or not. Specific forums mentioned were HotCopper and Whirlpool.

Figure 12. Summary views of online forums



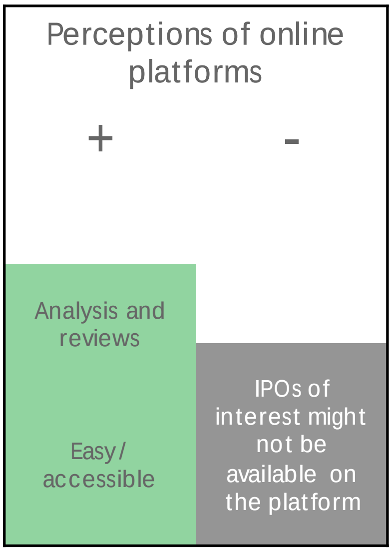
"Some of the online forums are a great source of information – and they can direct you to other articles, so I find that they are a good source of all round information."

"I will read a prospectus for myself, and I have a little checklist that I like to go through to get a bit of an idea, of what I'm dealing with. But I also want different perspectives. Rather than me just looking at it on my own and deciding yes or no, I like to have the ability to hear someone else say 'such and such on that board is good or bad' or 'they've had their expenses with this', plus it saves a little bit on research. But the downside of that is that what they say may add a prejudice on your perspective of the business."

Online trading platforms / specialist IPO platforms

This included both specialist IPO platforms such as OnMarket BookBuilds, and also share trading platforms such as Commsec and E*Trade. These platforms often had analysis and reviews of various IPOs available. Such information was not used to make a decision by investors in this sample, rather to support or confirm a decision largely made to invest in a particular IPO.

Figure 13. Summary views of online trading platforms



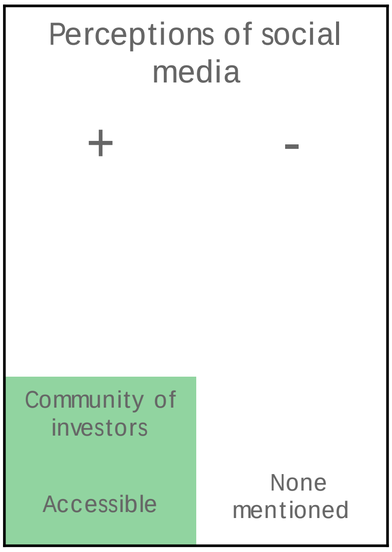
"Oh, and Commsec of course – to see what is being said, in case there are angles I haven't considered, I probably go there when I'm looking into any IPO."

Social media

This was mentioned by only a small number of investors, with most saying they had not considered social media as a potential source of information. Amongst those who used social media, there were a number of different approaches.

- **Investment groups**: Three investors who subscribed to investment advisory services were members of an investment forum, or Facebook group set up by that advisory group (Barefoot Investor, Motley Fool), and were influenced quite strongly by group members.
- **Networking for information**: One participant mentioned that she might use a query via Facebook and/or LinkedIn to quickly identify any acquaintance who knew anything about a company she was considering investing in, or about the management of that company.
- **Track sentiment**: One participant said she looked for comments on the listing company's Facebook site, although she didn't participate in any discussions. Such comments could be from clients, re the company's products/services or they could be from potential investors. This was used as background information only.
- **Track company news**: One participant used Twitter as one way of keeping up to date with what was happening in the listing company (this particular participant used many sources of information).

Figure 14. Summary views of social media



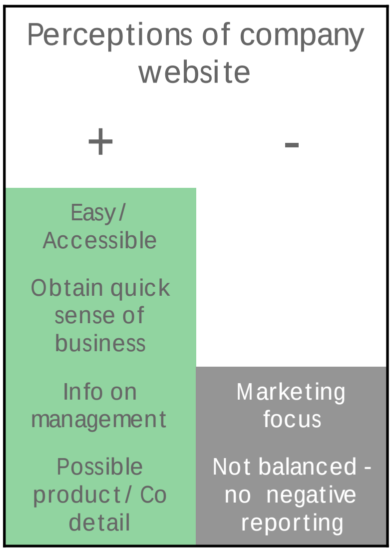
"There are some people in that group who have a lot more investing experience than me... I rate their knowledge and expertise very highly. They've got very significant portfolios."

"I'll get on Twitter, to begin to follow some of the people involved [in the IPO], like the chairman to get an idea on what is happening."

Company website

Some said after looking at the prospectus, they would go to the company website for more information. In most cases, these investors did not have specific information requirements in mind; they were looking to get a feel for the company (based on the website appearance and content), and to see if there was any other information they considered to be of relevance.

Figure 15. Summary views of company website



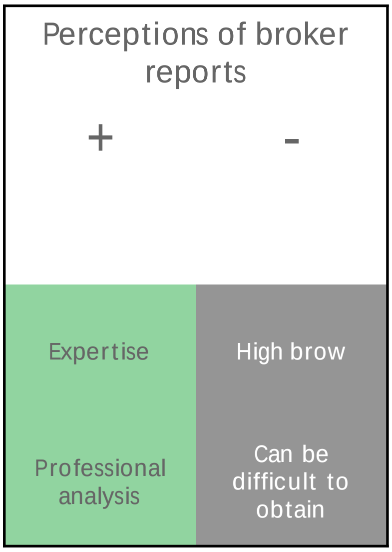
"You not likely to find any real issues on their website, but you can sometimes see what's missing... websites vary some have loads of information, reports and data, bios on the management team even the board in some cases... but others are purely marketing devices."

Broker reports

A considerable proportion claimed to look at *broker reports* in assessing potential investments, however the term broker report may have been used to encompass a range of investor analysis (which we were unable to verify). Such reports were said to be available via the listing company itself, via online broker services, via investment newsletters and services (both free and subscription), or simply sourced when conducting internet searches in relation to a listing company.

Although none of the investors in this sample made a decision solely on the basis of such reports, they were regarded as useful sources of information, and could confirm a decision that had been largely made to invest in a particular IPO. Not all were aware of these reports or confident of their ability to understand should they be able to access.

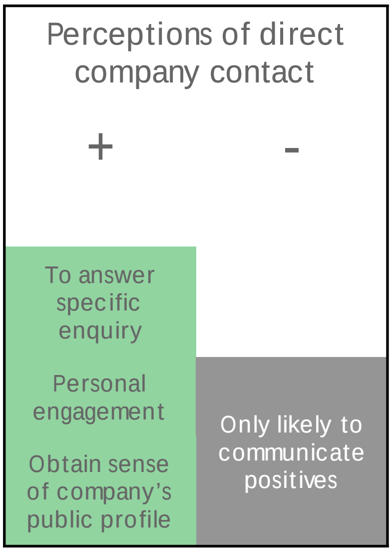
Figure 16. Summary views of broker reports



Direct company contact

A few investors said they would contact a company direct to see what information they could find. More experienced investors had the confidence to telephone or arrange a face to face meeting; in contrast, one inexperienced participant was reduced to ringing a generic information line.

Figure 17. Summary views of direct company contact



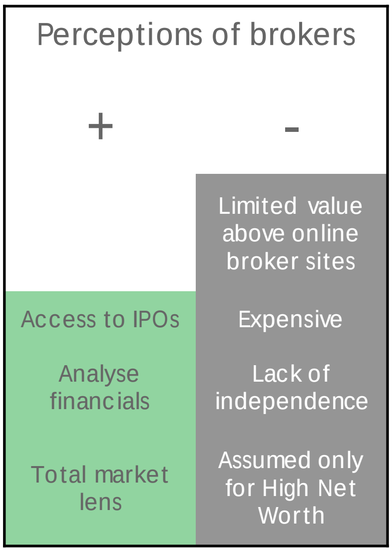
"Sometimes if I'm not really sure about what is going on, I might ring the company… as an example … one that's coming up, NOJA Power … there was some stuff on HotCopper, and that interests me, so I've gone out of my way to start research now, to try and understand the qualitative story, because the numbers aren't available to us yet. Because it's in Brisbane, I'd call them up, and if I'm allowed to, I'd go and actually see them… I want to see where they are situated, what the building looks like, do they have lavish buildings where they've clearly spent all their money on stuff like that, or are they sitting in a dingy room with a flickering light, just hammering away… then you will know that your money is going to be put towards the company producing something."

Brokers

A small number in this sample did have a specific broker whom they relied on to provide advice and to execute trades for them. These investors were quite reliant on their broker to understand the types of investments they were interested in, and to make recommendations accordingly. Amongst those who did use brokers, there was usually quite high reliance on the information they provided and their recommendations. Amongst these investors, brokers were preferred for their expertise and knowledge, time gained by not having to do one's own research and ready access to IPOs not available to all investors.

Some of the more experienced investors did make use of brokers, although they did not have a personal broker. Rather, they would contact the listing broker to obtain an idea of how much interest there was in an IPO, whether it was likely to be oversubscribed, and whether they were likely to receive a share allocation or not. Sometimes, they decided not to apply for a specific IPO because they did not think they would be allocated sufficient shares to make it worthwhile.

Figure 18. Summary views of brokers



*"I feel that the information that I'm getting from ASX, E*Trade and Macquarie Prime is sufficient. I've looked into using a full-service broker, but the fees were much higher, and I have a lot of experience, so I didn't think I'd gain from that."*

> *"If they are going to buy [into the IPO themselves], they are going to want to create some movement, to push up the price. So, they need to create a demand, and they are obviously receiving a very large fee for managing the IPO as well. So, there is some potential conflict. But in saying that, this is how it's always been, and it has worked relatively well, so it's not as if I'm sitting here and saying that the current model is broken – but whether it could be improved, I'm not sure."*

> *"If she thinks it's a good deal, and she's investing in it, then that's enough for me. She'll say – how much do you want, and I make a decision."*

> *"I've got little time. I want to deal with people who deal with the markets now. I'd prefer to pay a broker whose daily job, cut and thrust, is to be in touch with markets … who goes to meetings … who funnels the information and distils it … and says this is appropriate for me. …I speak to Dave (broker) probably three times a year … he rang me about RWC, told me about the business … at the time I had some cash through distributions … & so decided to proceed with the investment. Dave is the key source … it was a small float & it was quite attractive … (It looked good because) it's to do with motor vehicle components & Dave was telling me they had a lot of good quality contracts … it was at a time where share markets weren't offering much … there was a lot of money in my cash fund … it offered diversification. It was probably 90% of him selling the idea & 10% of me realising I needed to diversify."*

> *"The stockbroker had too much of a vested interest… conflict of interest is too high. They might steer you to a certain stock. They would steer you to the stock that has the highest commission."*

Barriers to using brokers were:

- **Cost:** Brokers were considered to be expensive, and consequently were often seen to be only for high value investors.
- **Size:** Many assumed that brokers dealt only with investors who had more money available to invest than they did.
- **Value:** Given the ease of finding information on the internet, and of trading via an online brokerage account, many investors found it hard to see the value in paying for a broker.
- **Lack of awareness:** It simply did not occur to many that brokers could be a potential source of information. Further, some inexperienced investors were confused about the role of a broker, and did not understand the differences between an online broker and a full-service broker, unaware of the services a full broker service provided.
- **Lack of trust:** A few specifically said they did not trust brokers to provide unbiased information.
- **Having outgrown the need:** A small number of experienced investors had used brokers in the past, primarily because when they started investing in the stock market, there had been no other channel available. Most had since converted to using an online brokerage service, as they believed they were equipped to make informed decisions.

> *"I used to use a broker, but they don't give you a full and honest account. They try to sell you what they've been told to sell, or whatever they get the highest commission on. They're like financial planners. It's exactly the same. I used to have a financial planner but I don't use either now. I make all my own decisions."*

Advertising

Recall of advertising as a source of awareness of IPOs among this sample was extremely low. One participant recalled advertising for IPOs on Facebook while others recalled references to high-profile floats (although these were not claimed as the initial source of their awareness). While aware at some level that information on IPOs provided via investment newsletters or online broker platforms was in fact promotional, investors tended to view this as information rather than as advertising content.

4.7.6 Information sources: incidence and influence

As described above, how the prospectus and other identified sources of information and perspectives were used varied significantly depending on the individual and the IPO in question. That said, there were patterns in relation to the frequency of mentioned use, and claimed or demonstrated influence of various information sources.

Across the sample the prospectus, along with financial media, were the two consistently referenced sources – in terms of both use and influence. Internet search was most frequently reported – with almost all using the internet – whether to broadly explore or seek specific answers (noting that Internet search is a channel not a single source and the sites visited along with the degree of usefulness varied significantly). Although far less widely accessed, online forums and broker reports were also identified as highly influential.

Information search and evaluation; Key themes

- Through their reporting, it appeared that respondents often approached the search for information by looking to support their predisposition to invest in a particular IPO
- With a wide variety of information sources available most decisions were influenced by a range of factors.
- Priorities included seeking sources that were perceived to be independent, with clear expertise, from known sources
- In concert, many investors seemed to favour information that aligned with their own perspective and was easy to access and understand.
- Financial media, internet search and the prospectus were all highly used and likely to be considered highly influential. Other specialist sources such as online forums were also named as highly influential; however their penetration was lower, limiting their reach.
- The wide range of sites and sources mentioned suggests significant fragmentation in approach. As a consequence, a number of sources highly valued by some investors (e.g. online forums and broker reports) were not used by the broader sample due lack of awareness of some degree of intimidation.
- This fragmentation aligns with the widespread belief that there is no single path to effectively evaluate the merit of an IPO, nor is there a universally agreed data suite that would be relevant for all.'

4.8 The role of the prospectus

Nearly all investors in this sample claimed to look at the prospectus to at least some extent, with some saying they used it as their main source of information. These tended to be the less experienced investors (or Opportunists or Followers conducting minimal due diligence); the majority stated the prospectus was just one of a range of information sources accessed.

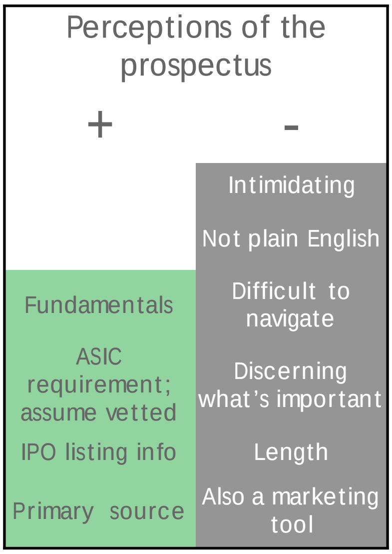
4.8.1 Obtaining the prospectus

While a small number preferred hard copy, the majority favoured an electronic version, printing out specific pages if required. People downloaded the prospectus from a variety of sites, including the listing company's website, online broker sites (e.g. E*trade, Commsec), the site of the broker managing the offer, or a specialist IPO platform such as OnMarket BookBuilds. A few had completed an Expression of Interest online when they first learnt of a company listing, and had subsequently been sent an electronic copy.

4.8.2 Extent of readership

Extent of readership of the prospectus varied considerably. Some claimed to read all of it or virtually all of it, although the majority said they read only the initial key information section and/or some key sections. Many said they looked at the prospectus early in their decision process, but would then revisit it during the course of their investigation and consideration of an IPO.

Figure 19. Summary views of the prospectus (repeat of Figure 5 in the Executive Summary)



> *"Do I read every word [of the prospectus]? No, I don't... It's like reading the terms and conditions of a website, or if you sign up with a new deal with Telstra. You assume that it's correct, if it isn't, they're not going to give you the service. If everyone else [has the information] then it's got to be there, or else [the IPO company] is trying to defraud everyone. But there are certain things that you don't need to read."*

> *"The prospectus can be so thick, 50 pages plus because complying with ASIC rules- but you don't read it cover to cover. You end up skipping rules and regulations, terms and conditions, there is too much detail, and it's too dry. If you read all the fine print you may never invest -you might get bogged down and become fearful."*

Most investors were confident in selecting the sections they felt were important or could understand. Particularly those who were more experienced said their readership of the prospectus varied considerably depending on the specific IPO and how much they knew about the company and the industry.

However, others were uncertain about whether all the information contained in a prospectus was actually necessary or not. This supports a key theme in this study: a shared belief that there is no absolute ideal set of information to be found and evaluated.

In addition, it was evident in discussions that investors frequently had difficulty in remembering which sections of the prospectus they had read, or where they had obtained certain information. For example, when asked directly if they had looked at financial information in the prospectus, the majority said they had (to at least some extent), but not all had spontaneously recalled looking at financial information in the prospectus when recounting their approach.

The following table summarises the key sections of prospectuses that investors recalled reviewing, listed in approximate order of frequency of mentions.

Table 1. Investor recall of prospectus key sections and their use

Prospectus Section Recalled	Investor reported use
Key Information/ Offer Statistics and Offer Summary	Some said this was a good way to get an overview of the offer, to help them decide if they wanted to investigate this particular IPO further. It was valued by some because it provided basic logistical information such as the application price, open and close dates, and so on. Others saw this as a key part of the prospectus, and read only this, or this and a few other selected sections. A few inexperienced investors felt that this section did not provide sufficient detail. *"That's usually enough to tell you what it's all about … I wouldn't read the whole thing … there's so many disclaimers and things I can't interpret. I try to glean what I need to know from the front sections."* *"I wanted to know how much of the company was going to be offered to the public, and that wasn't really made clear."*
Financial information	While the majority of investors said they looked at the financial information, the extent to which it was read and understood appeared to vary considerably. A small number claimed to read this material thoroughly, while the majority picked out some key information of interest to them. *"I just don't understand it that well, I guess. Yes, I can read a statement or a profit and loss, but there is just so much behind that which you won't know unless you're a financial analyst. And having worked for a publicly listed company, and understanding that there is more that goes into the accounts than can be summarised in a statement."* *"The financials are critical. It doesn't tell you everything but will certainly flag some pretty basic problems."*
Details of offer	Many regarded this as important because it explained the logistics of what they needed to do to apply for the shares. Some of the less experienced investors felt this section could be confusing, and would have liked it explained more clearly.
Business/industry overview	As noted previously, most investors believed it was important to have a good understanding of the business, and saw information in the prospectus as providing this, or as providing a good starting point for understanding. *"I want to know the plans for the business – I need to have a good understanding of the business that I invest in – I want to know what they do."*

Prospectus Section Recalled	Investor reported use
Board and management / directors	As noted previously, this information was mentioned as important by a considerable number of investors. *"What is the company structure, who they report to, an understanding of who the board is so that I have some clarity of what skills, background and knowledge they bring to the role. What is their standing."*
Risk factors	There was a view that this was a fairly standard section across prospectuses describing risks of IPOs in general, and a number commented that it did not provide a good assessment of risks specific to the individual IPO. A couple mentioned that it could be difficult to find the discussion of risks, although they knew they were in the prospectus somewhere. *"Sometimes the key risks can be quite broad, and quite vague… a company might put in that a key risk is to satisfy ASIC. And you go 'well, what are the specific risks-to-your-company? Can you be more specific? Like employment – everybody could go somewhere else. That is a key risk, and everyone knows that … what if John C, who owns the patent and has the key knowledge, what if he leaves the company – that's a key risk … [but] a lot of the time its vague, and it looks like they're just cut and pasted [the risks]."*
Investigating accountant's / auditor's report	While this was mentioned by only a few, those who did considered it of high importance.
Chairman's letter	This was mentioned by only a couple of investors, with most appearing to disregard it. *"It gives you a snapshot, a good overview."*

Perceived value of the prospectus

Despite the wide variance in readership, nearly all said they regarded the prospectus as useful. There was clearly a view that the prospectus contained important information, and it was apparent from discussion that most investors either did read or scan at least parts of the prospectus (or believed that they should do so).

While investors who relied on brokers for advice appeared to pay little (personal) attention to the prospectus, they regarded it as important information, and assumed that their broker had read and analysed it in detail.

> *"Do I wade through & read every word? No... Usually the information memorandum is 90% legal speak and really only 10% of what you want to know. I certainly read the Chairman's summary, but not beyond that. A lot of it is just legal waffle... I hope my broker reads it. People whose job it is to advise; it is important for them to read it. It's their job to read it... they indemnify themselves."*

4.8.3 Limitations of the prospectus

Despite the belief that the prospectus was an important document, there was a widespread belief by almost all investors we spoke to that it does not tell the full story; and that information in the prospectus needs to be supplemented with other sources.

> *"The prospectus is useful, but there's no way I'd make a decision based just on that. I know it has a positive slant, so I read it, and then I look for other information."*

> *"Fat Prophets gave a really good summary, how the company runs, its regulatory requirements, the sort of head winds that it might encounter, all in plain language. But you don't get that in a prospectus."*

The perceived limitations associated with prospectuses were as follows:

- **The prospectus was perceived to be a marketing document:** Most investors were aware that the prospectus had to meet certain statutory requirements, and assumed that companies would be held accountable to whatever information they presented in the prospectus (although there was little understanding of what the statutory requirements were). Having said this, some said it would be useful to know what criteria a company had to meet in order to be able to issue their prospectus.

  Having said this, investors also believed that a prospectus was designed to promote the IPO to investors, and as such, they believed it presented information about the company in the most positive light possible. This was supported by the look of most prospectuses as glossy 'marketing' like documents. All these factors suggested to investors that they also needed to look elsewhere to test and extend their knowledge.

  > *"The company is not going to put out a prospectus that reads poorly, or no one will jump on board... they are not going to show declining revenues, no one will buy it. It probably costs $5-10 million to put out a prospectus... And if you're spending all that money, you want to make it good. They probably have to be honest about the past, but they're probably overly optimistic about the future."*

  > *"They have to combine trying to sell the company and making the pitch to investors, with the ASX disclosure rules they have to abide by. So, they can't outright lie to us in a prospectus. That gives you a reasonable level of comfort in what's there. They're obviously done this to sell it. They've got to make their pitch; it's got to look good. But they've got to balance that with showing they're pragmatic and realistic. If any of those things don't show up, alarm bells go off."*

- **Some information was considered difficult to understand:** The ability of investors to understand information presented in a prospectus varied widely, depending on their level of experience, and their work or professional background. Financial and legal information was most likely to be identified as difficult to understand or effectively useful to evaluate an IPO.

  > *"As a retail investor, I find the information that is available is daunting... looking at balance sheets & looking for the devil in the detail. I now look for reports that are written in plain English … the report I read (re the IPO) was written in such a way that I could see the negatives... I think all the prospectuses… are too hard to understand. They're written by lawyers & people who have vested interests. One of the critical items... is to provide information that the average investor who doesn't have the knowledge, can understand what they're looking at... I honestly believe it has to be spelt out clearly & align with modern practices of explaining things that are critical in a simple way … a lot of things you buy now like insurance are written in plain language... there should be two copies (of prospectuses), one for institutions & one for retail investors."*

- **Length (too long and too short):** Prospectuses were considered to be too long by a significant proportion of investors – especially among the less experienced investors (the amount of technical and legal information was a key gripe). This contributed to difficulties in understanding, and likelihood to skip information. The less experienced felt that a "short form" prospectus would be of value to them. In contrast, a few of the more experienced investors commented that in some cases prospectuses did not provide sufficient detail of the type they were interested in.

> *"I don't read much, there is something like 200 pages, I probably only read 30 pages… I just wanted to know the history, the historical profits and revenue, and future forecasts for business and profits. Financials are the most important."*
>
> *"It is too long, absolutely. I'm sure it's relevant, and I know that some people will want all the information. I can go two ways – it's good that it's all there if you need that information, but a summary which points you in the right direction for more information if needed would suit me… and a brief summary of the terms and conditions, that would be good for me."*
>
> *"I would like to see more information in prospectus... sometimes there is just not enough information, and I can't tell whether it's because they just don't have the information, or if it's about marketing. So, I would normally only buy into one with more information... There are some prospectuses that are very glossy, they have information about their projections, but they don't explain their underlying assumptions. And if you don't understand that, how can you understand if it's a risk worth taking?"*

- **Some information was seen to be not specific enough:** A small number of investors felt that in some prospectuses, information was presented at too general a level, and did not allow the reader to obtain a clear understanding of the business, and of the risks facing the business. This was said to be more likely to apply to small IPOs.
- **Some information was hard to find:** A few investors said because there was no specific template that prospectuses had to follow, certain information could be in different sections from prospectus to prospectus, and therefore hard to find. These investors suggested that a standard template would address this problem.

Use of the prospectus; Key themes

- Referenced by most, but readership levels varied significantly.
- Key source of fundamental information but can be intimidating for less experienced investors with calls for more consistency of layout and plain English summaries.
- There was a widespread belief amongst respondents that the prospectus was designed to serve two key functions:

  1. Meets statutory requirements by providing all mandatory information. Respondents therefore thought it was important to look at the prospectus in order to understand the IPO.

  2. Promotes the IPO to investors by presenting information in the most positive light possible. Most respondents therefore thought it was important that they consider other information apart from the just the prospectus.
- Most respondents felt comfortable in ignoring sections of the prospectus, and focussing on those sections they considered to be most important, and / or which they felt they could understand.

4.9 Managing uncertainty, complexity and assessing risk

4.9.1 Types of risk

IPOs were frequently described as inherently risky, however as investors spoke about risk and their individual strategies to mitigate it, it became clear that what people meant when using the word risk was not limited to investment risk but also the potential impact of complexity and uncertainty on their ability to make an investment decision. Many spoke of needing to feel comfortable with their decision to invest. What he or she needed to reach this point was different for each individual (and also reportedly varied by IPO).

One key concern that some investors considered a risk was not having found enough information, or missing a critical piece of information (because they didn't always know what was important or what to look for), before making their decision. While this level varied from person to person, the concept was to do as much as possible (or necessary), to know as much as possible (or necessary) to achieve a level of comfort to proceed. This concern was considered broadly controllable and covered issues such as uniqueness of offer; financial performance to date; company reputation; underwriter etc. Here, people with a higher degree of uncertainty could assuage their sense of risk by doing more research.

The second area of perceived risk related to the unknown future i.e. how the market might respond; competitive response; market demand; the actions of the management team; etc. thus making it impossible to control for. How people respond to these risks was again highly individual. Some investors quickly acknowledged there is too much to account for and walked away; while others responded to that same conclusion with a comfort that it is impossible to know it all and let go and trust their gut. Those who did invest got to a point of comfort after what they deemed an appropriate level of assessment of the elements.

While some reported greater experience delivered greater comfort in their ability to assess risk, a number of older investors revealed their appetite for risk to have diminished with time gravitating to what they saw as “safer bets”.

> *“All investment decisions are hard because I am spending my hard-earned money. There’s always the risk that you’ve missed something, no matter how thorough your research. You’re always taking a chance when you buy shares.”*

> *“I have gotten very close many times, I’m very interested in major (IPOs) but I haven’t invested yet. I find it very difficult to gauge, it’s very sentiment driven – you have to gauge sentiment, not just fundamentals.”*

4.9.2 Risk mitigation strategies

A variety of strategies were used to lessen the sense of risk. Some investors reported using multiple strategies; others, only one. Key strategies to address ‘controllable risk’ included:

- **Information search:** As previously discussed, the majority of investors conducted at least some search for information about a company they were considering investing in, and some conducted extensive research. Developing a good understanding of the company, its product/service and its market was clearly seen as the most important element in evaluating an IPO, and in reducing the risk.

  Some said if they couldn’t find specific information on a company, they would as far as possible extrapolate from what they could find out about the industry, in order to determine the level of risk in investing in that IPO.

"You really need to look carefully at the company and what it does. Is it a leader in its field, or a bit player? Is it developing a new technology? Does it have a working prototype? Does it have the right patents? When is it going to start earning money?"

"I wouldn't invest in mining for example, because I wouldn't know how to interpret the information. It would completely baffle me."

- **Focus on known industries or markets:** Most investors focussed on industries or markets they felt they understood well when considering an investment in an IPO.

  Most investors did not seriously consider IPOs that operated in industries they did not believe they understood. Where a participant was interested in an IPO of a company that operated in an industry they felt they did not understand well, they conducted quite considerable research to help them better understand the market. In the majority of cases, investors eventually decided against an IPO they had been considering if they felt after some research that they didn't have a reasonable level of understanding about the company, its market and its business.

- **Reliance on broker:** In a small number of cases, investors relied heavily on recommendations from a known and trusted broker.
- **Focus on known management:** A few investors had purchased shares only in an IPO (specifically a Listed Investment Company [LIC]) where they had previous positive experience with the company management, through holding shares in other LICs managed by the company.
- **Avoidance of private equity:** A few avoided any IPO backed by private equity firms, believing that the value of the offer was more likely to be inflated in order to sell at a relatively high price, with a subsequent price fall to a level more commensurate with its actual value.

For 'uncontrollable' risks, strategies included:

- **Limit investment size:** In most cases, investors invested relatively small amounts relative to their total portfolio into any one IPO investment.
- **Understand market interest:** Where there was strong interest in an IPO, and it was likely to be oversubscribed, this was seen to be a strong indication that it was likely to perform well, at least in the initial listing phase.
- **Invest for only a short time:** A couple of the less experienced investors said that they intended their IPO investments to be short term only, and equated a short term holding with a reduction in overall risk (because they were exposed for a relatively short period of time).

Identifying and managing risk; Key themes

- The majority of respondents acknowledged IPOs as a relatively risky investment
- When discussing risk two key types of vulnerabilities emerged: those that could be controlled for and those that couldn't.
- A variety of strategies were used to mitigate each type of risk, these included:
  - information search and assessment (highly personal evaluation of what was appropriate)
  - limiting investment to known industries or markets
  - limiting investment amount
  - delegating investment decision to a third party
  - limiting exposure ($ amount and/or time in market)
- Perceived inability to mitigate risk was a key reason not to invest and while this was true for many at some point – for the Consider decision style it was a prevailing issue.

4.10 Managing conflicting information

Another issue relating to risk was where potential investors found conflicting information about a listing company. Many investors said that this did not in fact occur very often, and differentiated between conflicting factual information, which they felt was rare, and conflicting opinions, which they felt was inevitable.

> *"This is the hardest part actually. There's not often conflicting factual information, but there are a lot of differences of opinion … online forums can be quite confusing because there's so many differences of opinion. But some people have more facts than others, and you can ignore the highly-opinionated ones. You just have to take all that information and make a decision. And if it all gets too confusing I just don't invest in that company. I don't need to put my money in. I can wait for the next one."*

Some found the conflict in opinions quite frustrating, as they didn't know how to interpret these differences.

> *"This happens all the time – one author would say one thing and another person would contradict it. It is frustrating, because you think these people are experts. But they're coming up with the different analysis."*

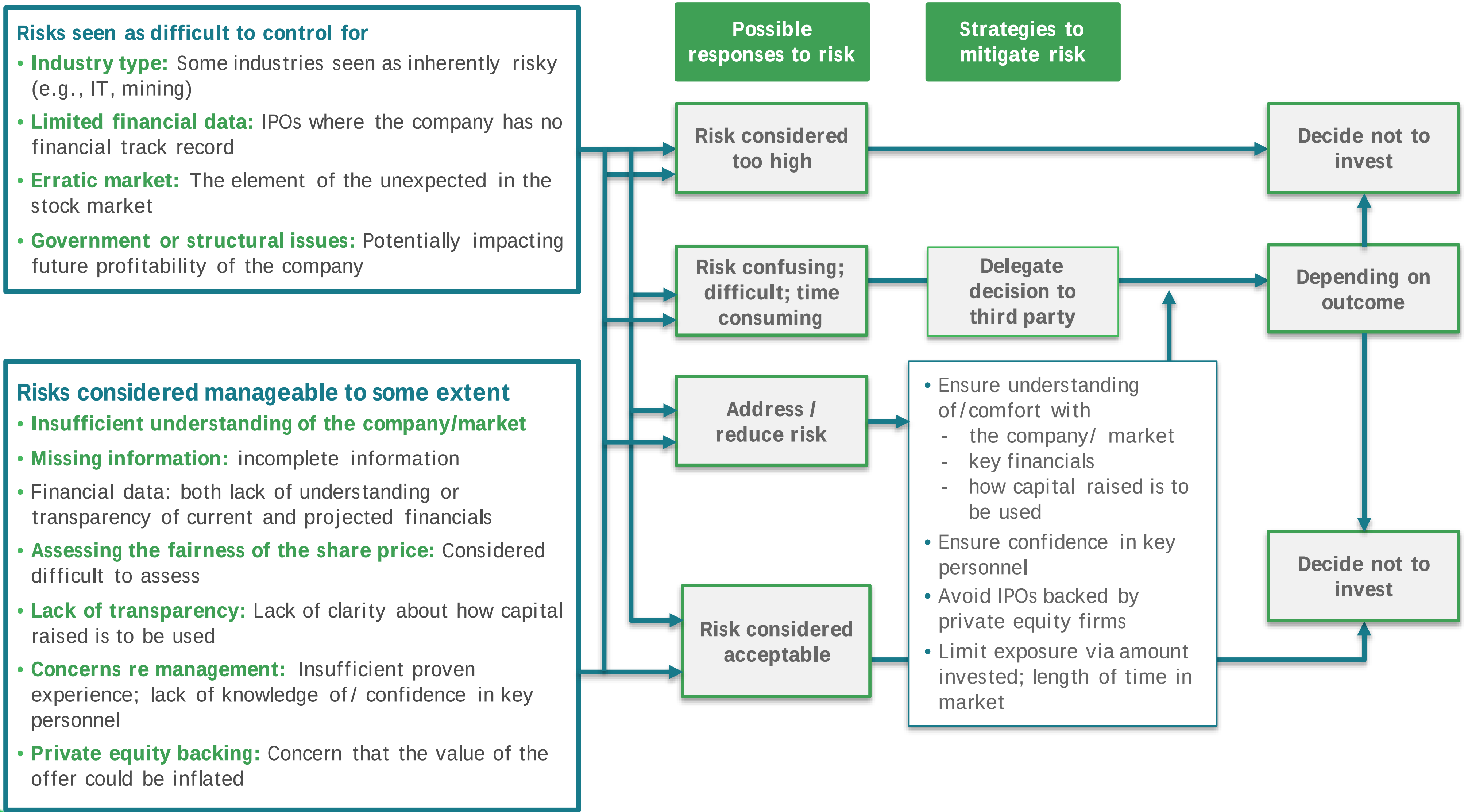
However, most investors overcame these problems through one or both of the following:

- using multiple information sources, and looking for a largely consensual point of view, or a point of view that seemed to them to fit the facts as they understood them, and
- identifying individuals whom they trusted as knowledgeable and credible, and disregarding the views of others.

Figure 21 below illustrates two broad types of risk that investors identified in evaluating IPOs. One is difficult to control for, while the other– at least in part – could be managed. Risks deemed difficult to control for, typically applied to sector, market or structural issues or the lack of financial history. Those risks that could be mitigated tended to include lack of knowledge on their part (of the company, sector or IPOs in general), concerns regarding the management team, the potential of an inflated price and/ or limited transparency. As a result, investors determine what they feel is the broad level of risk for a given IPO (allowing for mitigation of the latter grouping). If judged to be too high, investors walk away. If they believe the risk to be low they proceed. If they assess the risk to be moderate, they may adopt a number of strategies: most common was to conduct further research until their predisposition is supported or disproved; another was the abdication of the decision to a knowledgeable and trusted third party.

The diagram below summarises the key risks of investing in IPOs identified across the sample (very few were aware of the full range of risks), and the way individuals responded to their perception of risk.

Figure 20. Overview of approach to managing risk



4.11 Purchase: channel and experience

Once a participant had made their decision to purchase, they typically wanted this process to be as quick and easy as possible. There were a number of issues raised by investors in the purchase process.

4.11.1 Channel

The majority of investors completed the application form in the prospectus and paid direct to the company by EFT, and indeed, many were not sure how else they would apply.

Other methods mentioned by a few investors each were:

- applying for shares via OnMarket BookBuilds,
- purchasing direct through a broker, and
- purchasing through an online broking account (e.g. Commsec). This approach was regarded as very convenient, but was often not available.

Amongst the few who had purchased via OnMarket BookBuilds, the advantages were said to be:

- it provided easy access to IPOs that otherwise might not be able to the average retail investor,
- information and updates were sent automatically, so it was easier for the investor to remain up to date,
- once an investor had opened an account, the application process was very easy, and
- for an initial purchase, it provided the investor with a small discount, allowing them to buy a small number of additional shares for the same price.

4.11.2 Allocation

This was often not a straightforward decision, as the expectation was frequently that they would not get a full allocation. They therefore had to decide whether to apply for a number they wanted, and risk obtaining a much smaller allocation, or apply for more than they wanted in the hope of obtained their desired allocation, but with the risk that they may end up with more than they wanted. Most opted for caution, applying only for the number of shares that they wanted.

A few of the more experienced investors rang the listing broker to try to obtain an idea of how many shares they were likely to be allocated. If they believed they would not receive a sufficient parcel, for some this was a sufficient reason not to apply for shares at all.

> *"Before putting in the form I'd ask them. I'd say "this is how many shares I want, is it going to be oversubscribed? What's the story? Guide me". And sometimes they'll say – don't waste your time sending in the form. You'll be a minnow in a piranha pond… if they say they think there will be enough shares to go around, I'll fill in the prospectus and send it through."*

A number of investors commented that the uncertainty about the number of shares they would be allocated was an annoying aspect of investing in IPOs.

A few of the less experienced investors commented that they felt that the rules needed to be changed, so that investors could have more certainty about how many shares they were going to get before tying up their finances.

Others raised over-subscription as an annoyance, but (grudgingly) accepted it as an unavoidable problem associated with attractive IPOs. Some in fact, used this as a measure of the likely success of the IPO.

4.11.3 Payment

The concept of paying up front for the number of shares they applied for, with a refund if they did not receive the full allocation was felt to be annoying and somewhat unfair (tying up their money in the intervening period/ onus on them to pay without guarantee). For the small number who purchased via a broker, this was not an issue, as they did not need to pay the money up front.

A couple of investors complained that some companies listing required payment by cheque. They found this very inconvenient and therefore annoying.

4.12 How confident are investors in making the purchase decision?

Across the sample, the majority of investors said that by the time they decided to invest in an IPO, they were confident in their decision. This confidence was borne out by the extent to which they believed they understood their investment, and the actions they had taken to reduce the level of perceived risk as much as possible. Thus, in broad terms, investors were most likely to be confident in their decision, where:

- a large amount of information about the listing company, its products/services and its markets was available,
- the participant believed they understood the information available and believed it supported the likely success of the company, and
- there was support from others, particularly ‘independent’ experts that the IPO was likely to be successful.

Having made the decision to purchase, investors often talked about feeling “comfortable” with their decision. It was noticeable that a number talked about having a “gut feel” that they had made the right decision, although by that stage they had typically spent some time considering the pros and cons of the purchase.

> *“I’d done the research... I had a gut feel, you know, it just felt right.”*
>
> *“I thought it was a safe investment... it paid a good dividend... and it was going to be oversubscribed.”*
>
> *“If they've got a good (financial) history to look at, that's good... but really, when I make a decision I'm going with my gut...”*
>
> *“I thought - I'm reasonably comfortable with this as an investment... a lot of it is instinct. You get to a point where you're just comfortable...”*

Those who had conducted minimal investigation but acted on the action or advice of others also reported feeling confident as they were following a trusted source (and having done minimal if any investigation of their own did not have any reason to challenge this perspective).

In contrast, a small number of investors said they never felt particularly confident in making a decision to purchase shares in an IPO, because all shares were something of a gamble, and IPOs were regarded as more of a gamble than the average share.

Purchase and channel experience; Key themes

- The logistics of purchase presented some challenges to the investor sample, especially regarding the lack of certainty re share allocation demonstrating a lack of perceived power as a retail investor.
- Confidence at the point of purchase was reportedly high for most – possibly indicating hindsight bias and sunk cost bias.
- Most believed they had conducted sufficient evaluation of available data - to mitigate risks (if not, they argue they would not have proceeded).
- The belief that they had conducted due diligence was frequently driven (at least in part) by a feeling of 'comfort' with proceeding with the decision to invest.
- To make the decision investors believed the level of perceived opportunity was not outweighed by the sense of perceived risk.

4.13 After the investment

The majority of investors said they intended to hold their shares for the medium to long term after listing and most had in fact done that (where sufficient time had elapsed to establish their behaviour after purchase).

> *"Once I've bought into an IPO, because I've done so much research, I'm likely to hold even if the price drops after listing, because my research will indicate that the company should improve in time … Don't get me wrong, some go down and just continue to slide … Dreamscape right now just doesn't have a lot of buyers, there just isn't a lot of interest in it. And there are some people trying to scramble off the ship, and I understand that … but it has [not much] debt, and it's profitable, so to me … the ones who are in debt are more likely to go out of business … but the ones who are making money are less likely to. So, you hold that over time."*

A few intended to buy and sell shares quickly in the hope of making a stag profit, but their ability to do that depended on the share price performance. If the share price did not increase quickly as expected, some sold at a loss and moved to the next investment, while others held them on the basis that the price would go up in the future.

> *"I have bought into IPOs, sold out, and when the market has settled, I've bought back in. I find the first days are highly erratic … if I can take a quick buck I'll do it. I'm learning this over time. When I first got into them, I held most of them long term. But I'm beginning to find, and research shows, that in 1 – 7 days it hits its peak."*

4.14 What was known about ASIC?

High awareness of ASIC, but little understanding of role

Nearly all investors were aware of ASIC as a regulator, but very few were aware of ASIC's role specifically in relation to IPOs. When questioned, most assumed that ASIC would play some sort of regulatory role, but this was not something that most had considered when thinking about investing in an IPO.

Even where investors were aware of ASIC's role, there was little awareness of exactly what this entailed.

> *"It gives some sense of comfort that a regulatory framework is in place, although I don't know what they do specifically."*

> *"To ensure that the integrity of information is checked, it's independent, and it's the corporate regulator, so I expect that they enforce and regulate in line with the company law act, and that they protect investors, anyone who is buying in."*

Where investors felt they did understand ASIC's role, their attitude was positive. However, for those with low levels of awareness, there was a desire to understand more about what ASIC did in relation to IPOs, and how the market was regulated.

A number suggested that they would like to know what criteria ASIC use in ensuring a prospectus meets regulatory requirements, and ideally, they would like to know how a listing company performs on each of those criteria. These investors believed that if this information were available, it would increase their confidence in IPOs as an investment class.

Facilitating retail access to IPOs

A few investors were of the view that it has always been difficult for small retail investors to gain access to IPOs, and notwithstanding the arrival of companies like OnMarket BookBuilds that facilitate access, it may become more difficult in the future as regulation makes it more difficult.

> *"I think it has always been hard for retailers [to invest in IPOs] … It needs to be mandated that more retail [investors] need to be involved … so we can get access to the higher quality companies."*

Appendix

Research Objectives

It was anticipated the research could cover the following types of issues:

- How investors first heard of or learnt about particular IPO investment offers;
- Why they decided to invest in the offer;
- The information sources that most influenced their decision on whether to invest in IPOs (and why);
- The information sources which had limited of no influence on them, or which they did not access/use at all (and why);
- Whether they read the prospectus and if so, did they find it useful? Did they read all of the prospectus or only parts of it and which parts did they find useful?
- If the investor did not read the prospectus, why not?
- Did they receive any information or guidance from a broker or financial advisor? If so, was the information balanced – i.e. did the broker tell them about both the advantages of the offer and the disadvantages, or mainly the advantages?
- Whether they noticed any advertising or marketing for the offer and if so, what was the source of this advertising (e.g. TV, email, social media);
- Did a broker suggest they invest in the offer or recommend it as an investment;
- Whether they received complex or conflicting information from different sources, and how they resolved this;
- They channel through which they invested in the IPOs;
- What proportion the IPO investment represented of their current investment portfolio;
- The role/impact of heuristics and behavioural biases on their processes and choices.

Ensuring the research findings:

- Clearly demonstrate whether there were any consistent sources of information that were/were not particularly influential on investors' investment decision and their relative importance
- Identify and describe the homogeneity / heterogeneity of investors' experiences and motivations
- Explore the range of supply and demand barriers to investment decisions by non-institutional investors in IPOs.

Methodological details

As noted in Section 4, a number of qualitative methods were employed. In stage one, one-on-one depth interviews (face to face and telephone); paired (face to face) interviews and group discussions were used. One-on-one and paired interviews enable deeper exploration of individual experiences - from awareness to ultimate decisions to invest (or not). Investors were asked to focus on a recent IPO (in the previous 12 months) to anchor discussion in a specific event to both sharpen the memory and avoid generalisations. These conversations were largely investor led to enable more natural elicitation of process and perception. Paired depths operated similarly, but were conducted with couples to provide additional insight into how people make investment decisions as a unit.

As decisions to invest are also socially influenced we included 2 group discussions. Grouping investors with similar investment profiles (level of experience and size of investment portfolio) enabled us to observe the language and frames people use to discuss investments in general - and IPOs in particular. In stage two the sample was expanded using telephone interviews and a semi-structured interview style to increase the sample size and gain wider geographic coverage.

The table below sets out the number of investors across location and type of interview.

Table 2. Investor sample distribution by interview type and geographic location

Stage	Interview type	Melbourne	Sydney	Brisbane	Perth	Adelaide	Total Participants
Stage 1	Depth interviews	6	5	2	1	0	**14**
Stage 1	Paired depth interviews	2	4	0	0	0	**6**
Stage 1	Group discussions	0	8	0	0	0	**8**
Stage 2	Semi structured interviews	6	3	9	5	1	**24**
Total investors	**All interview types**	**14**	**20**	**11**	**6**	**1**	**52**

The following tables show characteristics of the sample across a number of criteria.

Table 3. Sample distribution by interview type and age

Interview type	Stage 1 Sample: Under 45 years	Stage 1 Sample: Over 45 years	Stage 2 Sample: Under 45 years	Stage 2 Sample: Over 45 years
Depths	6	8	12	12
Group investors	3	5	0	0
Paired depths	1 pair	2 pairs	0	0

Table 4. Sample distribution by gender and age

Interview type	Stage 1 Sample: Male	Stage 1 Sample: Female	Stage 2 Sample: Male	Stage 2 Sample: Female
Depths	8	6	12	12
Groups	7	1	0	0
Paired-depths	3	3	0	0

Table 5. Investor sample characteristics across Stages 1 and 2

Characteristic	Stage 1	Stage 2
Cultural and linguistic background	• Indian: 4 • Chinese: 3 • European: 1 • Greek: 1 • Ukrainian: 1 • Balance identified as Anglo Saxon	• 21 investors identified as Anglo Saxon • 2 investors identified as Malaysian • 1 participant identified as Chinese
High Net Worth individuals[6]	11	N/A
Invested in IPO via SMSF	8	8
Years investing in stock market	A wide range. Among the depth interview investors, 4 investors had 30-40 years' experience. On average, experience was around 20 years.	A wide range. One considerer had never invested in the stock market. Across the rest, the range extended from 6 months to 40 years. On average, experience was 15-16 yrs.
Number of IPOs invested in	• 1 IPO x 7 • 2-5 IPOs x 9 • 5+ IPOs x10 • Yet to invest in an IPO x 2	• 1 IPO x 3 • 2-5 IPOs x 10 • 5+ IPOs x 5 • Yet to invest in an IPO x 6
Level of confidence in making financial decisions - investors self-identified their level of confidence from a 4-point scale, breaking down as follows:	• Extremely confident: 2 • Confident: 7 • Some experience and knowledge, but no expert: 19 • Limited experience and knowledge: 0	• Extremely confident: 1 • Confident: 8 • Some experience and knowledge, but not an expert: 12 • Limited experience and knowledge: 3
Total portfolio size	• Ranged from approximately $15,000 to $1.2m • The majority had portfolios between $300,000-$400,000 • Portfolio size of group investors were not captured	• 3 x > $500,000 • 11 x $100,000-$500,000 • 3 x $50,000-$100,000 • 6 x < $50,000 • 1 x yet to invest
Claimed % of portfolio invested in IPO under discussion	A wide range across the sample: • 3 x 1% of their total portfolio; • 1 x 40% of their total portfolio; • 13 x 2%-20% of their total portfolio *Note: % of portfolio was not captured for group investors.*	% of portfolio in last IPO: • 3 x 1% of their portfolio • 7 x 3%-5% of their portfolio • 5 x 10%-25% of their portfolio • 1 x 100% total portfolio • 8 x did not invested

[6] Defined as: an investor who has personally: invested $500,000 in company securities, has $2.5m in net assets, or had gross income of $250,000 for each of the last 2 financial years

The following summarises IPO information required and information sources.

The business and its market

Why the information was important

- Almost universally mentioned – although what was required to achieve that varied enormously by investor and IPO. Commonly this included: what the company produced, by what means, for what market(s) as well as the factors they believed would influence the success of the company, (e.g. the uniqueness of the offer, how it was differentiated from its competition, vulnerability to replication; prospects short or long-term growth, threats and vulnerabilities etc.). Some included the business model as well as financials and management in this – while others saw these as interconnected but distinct. Many commented that the dimensions required to understand a business could vary from one IPO to the next.
- Critical because this provided sense of the opportunity – i.e. large or small, truly unique or run of the mill, limited or strong long-term prospects etc.

Where the information was obtained

- The prospectus was most frequently cited. A considerable number sought further information in order to both validate information found in the prospectus and to broaden understanding of the market. Sources commonly identified included:
- Financial media and/or the company website, and/or internet searches. Depending on the specific information sought, some went to known databases such the ABS or IBIS World to find more data about the market in question.
- Broker reports and online forums were other sources used by a small number.
- Ability to find this information fluctuated somewhat depending on the product and market, although in most cases, investors felt there was a lot of information available. Some said it was not always clear the level of detail they were looking e.g. if a new product being brought to market, it was not easy to find the stage of development i.e. was it fully developed, were patents lodged, etc.?

Financial information

Why the information was important

- While a considerable number asserted “financial information” as key, this term covered a range of dimensions.
- Some saw it as relating to the size of the capital raising, the application price, likely share allocations, whether any dividends were likely to be payable and if so, how much? Others used ‘financial information’ to refer to the financial position of the company, and looked at factors such as the balance sheet, financial equity, forecast turnover and profitability, the capital structure of the company.

Where the information was obtained

- The prospectus was consistently cited as the primary source for financial information – although not always the only source mentioned. Some accepted the information provided in the prospectus and looked no further for financial data, often believing they lacked the financial skills to analyse what was provided.

- It was widely understood that key financial data was a legal requirement of the prospectus, which provided some solace to the less confident investor.
- Others conducted their own analysis of the figures provided to establish whether they thought figures and forecasts appeared reasonable, and/or sought further information, generally via internet searches.
- Other information sources used included financial media, broker reports and discussions on online forums.
- Those who had access to brokers also saw them as a useful source for obtaining and discussing financial information.

How much money was to be raised and how it was to be used

Why the information was important

- Investors wanted to know how any money they invested was to be used.

Where the information was obtained

- The prospectus was the primary source for this information. The extent to which this was addressed in the prospectus appeared to be quite variable, with some believing the information to be satisfactory, while others said in at least some prospectuses they could not find an adequate explanation.

Details of the offer

Why the information was important

- This consisted primarily of logistical information, such as the application price, the opening and closing dates, the minimum investment. As noted above, some included this under "financial information".

Where the information was obtained

- In most cases, investors found his type of information fairly easily in the prospectus. Some of the less experienced investors felt the information was not presented as clearly as they would like.

Company past record/ performance

Why the information was important

- If available, this was considered useful to help assess the company, and its likely long-term potential.

Where the information was obtained

- This information was not always available for a newly listing company. Where the company did have an established track record, information was sought in the prospectus, in the financial media, and via online searches.

Management Team

Why the information was important

- Many (especially more experienced investors), regarded this as very important, citing the management team and/ or the board as integral to the success of the company. Information on each person's role, experience and qualifications was often looked for.
- Some did not consider this at all, either because they did not regard it as important, or because they did not believe they had the ability to evaluate past performance or suitability.

Where the information was obtained

- Where this information was sought, the prospectus was a primary source. Some looked only at the prospectus, while others then did an internet search for further information on each person named. As part of this, a handful said they looked up each person on the ASIC website. Here they were checking primarily to make sure none of the management team had a history of bad management. Where such information did emerge, they were unlikely to consider this IPO any further.

Key Shareholders

Why the information was important

- This was seen to be important for two reasons:
  - To see if management were retaining a stake in the company, with investors seeing this as an indication of management commitment to the company.
  - To see if there was support for the company by major investors such as banks or superannuation companies.

Where the information was obtained

- The prospectus was used most often for this information. However, some said this information could be hard to find, and often wasn't available until after the company listed.

Risks

Why the information was important

- Many recognised obtaining an understanding of the level of risk associated with an IPO as important. While central – it was not always specifically explored.

Where the information was obtained

- While the prospectus contains information on risks, some felt this information was too general, and needed to be more specific to the individual IPO.
- A small number said they looked elsewhere (broker reports, internet search) for this type of information, not trusting the prospectus, because they saw it as too focused on providing positive information.

Degree of interest / media hype

Why the information was important

- More experienced investors typically raised this as a potential indicator of how successful the float was likely to be.

Where the information was obtained

- There was no clear measure available of this type of information. Accordingly, this information was obtained instinctively via financial media, discussion on online forums, and conversations with brokers.

The demand for shares in the company

Why the information was important

- A small number of more experienced investors saw this as important. Related to media hype, they wanted to know if the offer was likely to be oversubscribed -because if it was, this was an indicator that the share price was likely to increase upon listing. However, it also meant it could be difficult to obtain a share allocation.

Where the information was obtained

- It was difficult to obtain this type of information. Some contacted the brokers to get their view, but did not see this as a highly reliable source of information.

Other people's opinions on whether the IPO will be successful

Why the information was important

- Some investors completely disregarded the opinions of others, while many were keen to use opinions of others to help them assess the offer.

Where the information was obtained

- This information was obtained via financial media (typically preferred journalists or commentators), discussion with (knowledgeable) family, friends or colleagues, via online forums, and through conversations with brokers.

Ethics & sustainability principles

Why the information was important

- This was mentioned by only a small number of investors, who were concerned that they should invest only in companies they considered to be ethical.

Where the information was obtained

- The prospectus was used as the starting point for this information, and further internet search was used to validate information in the prospectus.

The underwriters

Why the information was important

- This was mentioned by only a small number of experienced and engaged investors. The investor's prior experience with the investment bank and/or the bank's reputation – was in some cases a marker for trust. Poor experience or reputation warranted caution, while solid reputation and/or good experience conferred a degree of trust.

Where the information was obtained

- The prospectus was the source for this information.

Lead broker

Why the information was important

- This was mentioned by only a couple of experienced investors. They said that some brokers were well known for conducting good IPOs (i.e. where the share price rises after listing), and would be much less likely to take on a poor investment proposition.

Where the information was obtained

- While this information is in the prospectus, those interested sought the information before the prospectus was released, so they usually found this information online.

Number of shares in escrow

Why the information was important

- This was mentioned by only a couple of experienced investors. They regarded this as important because they believed if shares are not held in escrow, the market could be flooded with cheap shares as soon as the company lists, thus dragging down the price. Likewise, if on a certain date a large number of shares are due to come out of escrow, it can have a significant impact on share price.

Where the information was obtained

- The information was said to be available on the company website and in the prospectus.

Options available

Why the information was important

- This was mentioned by only a couple of investors, who regarded options as an attractive bonus to an IPO.

Where the information was obtained

- Those investors who mentioned this said this information was available in the prospectus.

Criteria a company must meet in order to list

Why the information was important

- A few investors said they assumed there were regulatory and fiduciary requirements that a listing company must meet, and they would like to understand exactly what those requirements were. These investors said they would have more confidence in IPO investing if:

  - They knew what those criteria were.
  - They knew how the listing company was assessed against those criteria.

Where the information was obtained

- Investors who had looked for this information said they had been unable to find it.