Market Talks
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STOCKS · BEGINNER · LESSON 2 OF 15

How Companies Go Public

How a private company sells its shares to the public for the first time, who sets the price, and what happens on and after the first trading day

11 min read 8 quiz questions with answer key

STOCKS · BEGINNER · LESSON 2 OF 15

How Companies Go Public

IN ONE SENTENCE

An initial public offering, or IPO, is the moment a private company first sells its shares to the public and lists them on a stock exchange. Banks called underwriters help prepare the offer and set the price. After the IPO, the shares trade freely between investors, and the company itself no longer receives money from those trades.

From a private company to a public one

In Lesson 1, Alex owned most of his coffee company, Bright Bean, and sold 10% to his friend Emma. At that stage Bright Bean is a **private company**. Its shares belong to a small group of people, they are not traded on any exchange, and selling them means finding a buyer yourself.

Most companies that end up on the stock market follow a similar path. They start with the founders' own savings, then raise money from **angel investors**, wealthy individuals who back young businesses, and later from **venture capital** funds that invest larger amounts in fast-growing companies. Each round of investment buys a slice of the company.

When a company becomes large enough, it may decide to sell shares to the general public for the first time. This is called an **initial public offering**, or **IPO**, also known as going public or listing. After the IPO, anyone with a brokerage account can buy the company's shares on a stock exchange, and the company becomes a **public company**.

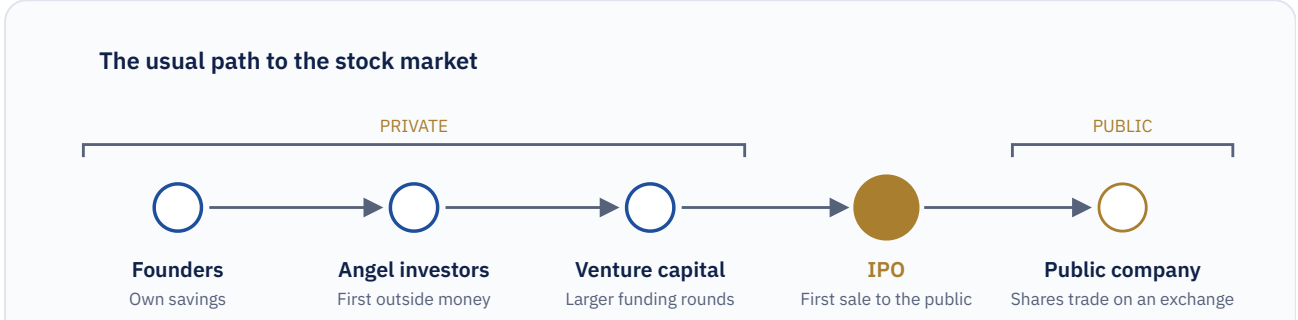

Figure 1. Most companies are funded privately for years before they go public. The IPO is the bridge between private and public ownership.

Why companies go public, and what it costs them

Going public is a big decision, and it has clear benefits:

- **Raising money.** An IPO can raise far more money than private investors usually provide, to pay for growth, research or paying down debt.
- **A way out for early investors.** Founders, employees and venture capital funds can eventually sell their shares on the open market.
- **Shares as a currency.** A listed company can use its own shares to buy other companies or to reward its staff.
- **Visibility.** A listing often brings more attention from customers, partners and lenders.

It also has real costs. Public companies must publish detailed financial reports every quarter, follow strict rules and answer to thousands of shareholders. The IPO itself is expensive: banks, lawyers and accountants are paid fees that often reach several percent of the money raised. And managers come under constant pressure, because the share price shows every day what the market thinks of their decisions.

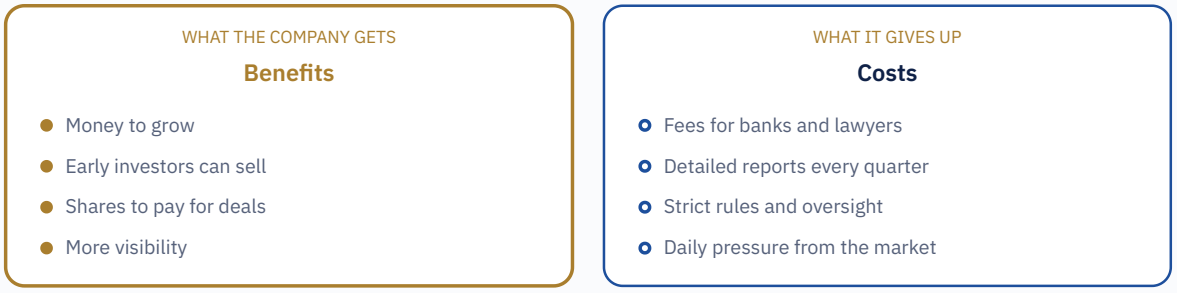

Figure 2. Going public brings money and flexibility, but it also brings costs, rules and constant attention from the market.

The IPO process step by step

An IPO usually takes many months of preparation. The details differ from country to country, but the main steps are similar everywhere:

- **Choose the underwriters.** The company hires one or more investment banks, called **underwriters**. They advise on the offer, help set the price and sell the new shares to investors.
- **File the documents.** The company prepares a **prospectus**, a long document that explains the business, its finances, its risks and how the money will be used. In the United States it is filed with the Securities and Exchange Commission (SEC) as part of a registration statement, usually Form S-1.

- **Regulatory review.** The regulator reviews the documents and asks questions. It checks that investors get the information they need, but it does not judge whether the company is a good investment.
- **The roadshow.** Managers and bankers present the company to large investors, such as pension funds and asset managers, and collect information about how many shares they want and at what price.
- **Pricing and the first trade.** The final price is set, usually the evening before trading begins. The shares are given to the investors who ordered them, and the next morning they start trading on the exchange under a new ticker symbol.

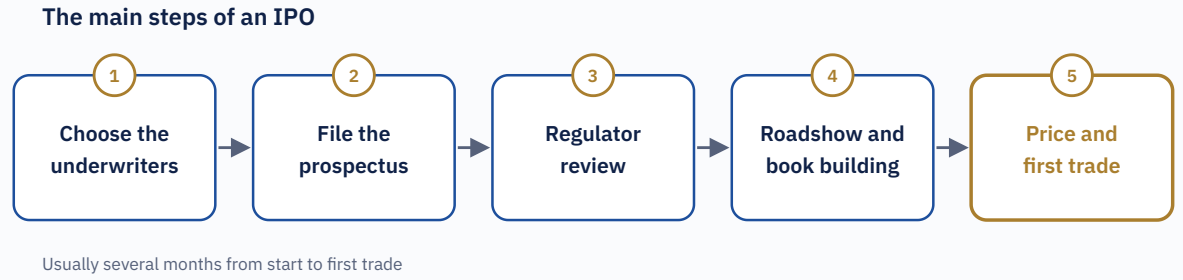

Figure 3. The five main steps of a traditional IPO.

How the IPO price is set

Before the roadshow, the company and its underwriters publish a **price range**, for example $30 to $32 per share. During the roadshow, investors tell the underwriters how many shares they would buy and at what price. This process is called **book building**, because the bankers build a "book" of orders.

If demand is weak, the price may be set at the bottom of the range or below it, or the IPO may be delayed. If demand is strong, the range can be raised and the final price set at or above the top. Underwriters often price a little below what they think the market will pay, so that the shares rise on the first day and the investors who bought in the IPO are happy.

Once trading starts, the price is no longer set by the bankers. It is set by everyone buying and selling on the exchange, and it can be very different from the IPO price. A large jump on the first day is called an **IPO pop**. It is good news for the investors who received shares at the IPO price, but it also means the company sold its shares for less than the market was willing to pay.

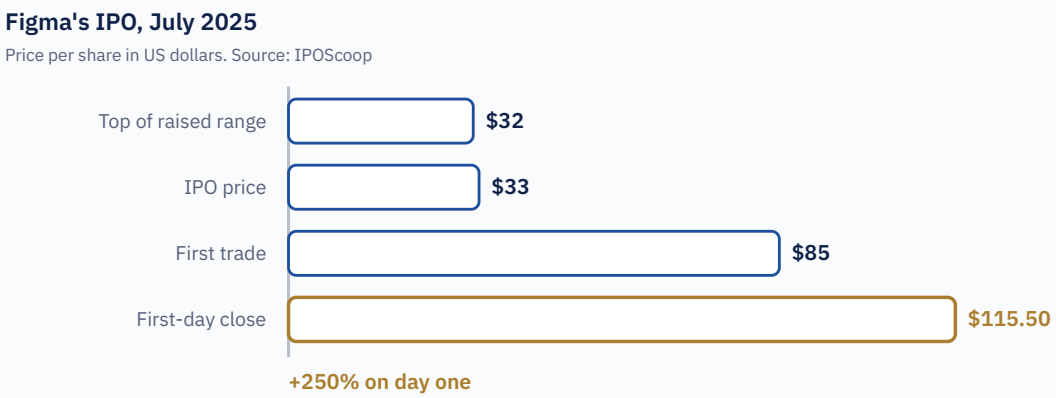

Figure 4. Figma priced its IPO above its raised range, then the market pushed the price much higher on the first day.

EXAMPLE: FIGMA'S FIRST DAY IN JULY 2025

Figma, the design software company, raised its price range to $30 to $32 because demand was strong, then priced its IPO at **$33**, above the top of the range. It sold about 36.9 million shares and raised about $1.2 billion. On its first trading day on the New York Stock Exchange, the first trade took place at $85, and the shares closed the day at **$115.50, about 250% above the IPO price**. Investors who got shares in the IPO more than tripled their money in a day, while a buyer who paid $115.50 in the market paid three and a half times what IPO investors paid.

The primary market and the secondary market

There are two very different kinds of share sales, and the difference is important.

In the **primary market**, a company sells new shares and receives the money. An IPO is the most famous example. When Figma sold its shares at $33, the money raised went to the company and to the existing shareholders who sold part of their stake in the offer.

Once the shares are listed, they trade in the **secondary market**, the stock market most people know. When John buys 10 Figma shares on his trading app, he is buying them from another investor who wants to sell. The company is not involved and receives nothing. It does not matter to Figma's bank account whether its shares trade at $50 or $150.

So why do companies care about their share price? Because it shows what the business is worth, it affects how much money they could raise in a later sale of new shares, and managers and employees usually own shares themselves. Almost all daily stock trading, and everything in the rest of this track, happens in the secondary market.

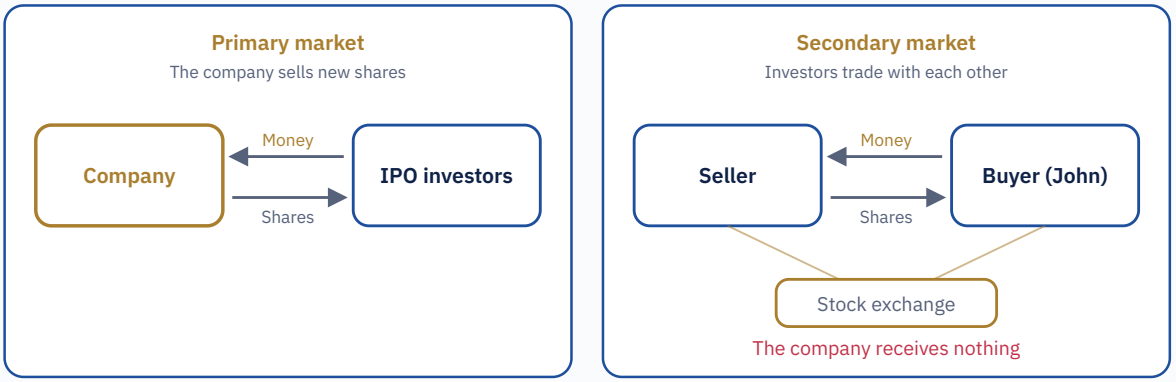

Figure 5. The company receives money only in the primary market. Everyday trading in the secondary market happens between investors.

After the IPO: lock-ups and the first months

Founders, employees and early investors often own most of a company's shares when it goes public. If they all sold on the first day, the price could collapse. To prevent this, they usually sign a **lock-up agreement** that stops them from selling for a set period after the IPO, often **180 days**.

When the lock-up ends, a large number of shares can suddenly become available to sell. Traders watch these dates closely, because the price sometimes weakens as the date approaches or soon after it.

The first months of trading are often volatile. In 2025, according to Renaissance Capital, US IPOs rose by an average of **19.7% on their first day**. But a strong first day says little about the long run. Some well-known companies traded below their IPO price for a long time after listing, and new companies have a short public track record, so there is less history to judge them by. For a beginner, buying a popular IPO on its first day is one of the riskiest ways to enter the stock market.

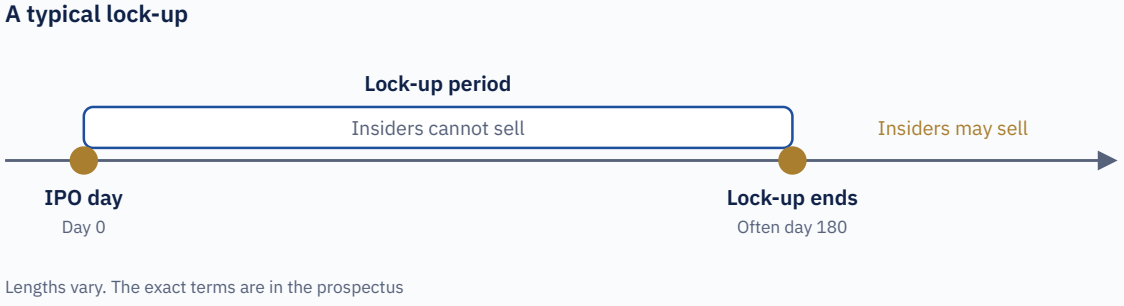

Figure 6. A lock-up stops insiders from selling for a period after the IPO, often 180 days.

Other ways to become public

A traditional IPO is the most common route, but there are others:

	Traditional IPO	Direct listing	SPAC merger
How it works	Underwriters sell shares to investors at a set price	Existing shares simply start trading on the exchange	A listed shell company with cash merges with a private company
New money for the company	Yes	Usually not	Yes, from the shell company's cash
Who sets the first price	Underwriters and the order book	Buyers and sellers on the first day	Negotiated in the merger deal
Well-known example	Figma (2025)	Spotify (2018)	Many companies in 2020 and 2021

A **SPAC**, short for special purpose acquisition company, is a company with no business of its own. It raises money in an IPO and then looks for a private company to merge with, which makes that company public. SPACs were extremely popular in 2020 and 2021, but many of the companies that went public this way performed poorly afterwards, and regulators tightened the rules.

IPOs in numbers

The number of IPOs rises and falls with the market. When prices are high and investors are confident, many companies rush to list. When markets fall, IPOs are often delayed.

According to Renaissance Capital, **202 companies** went public in the United States in 2025, raising a total of **$44.0 billion**. The largest was Medline, a supplier of medical products, which raised about $6.3 billion. Other well-known listings that year included CoreWeave, Klarna, Figma and Circle.

The largest IPO in history took place outside the United States. In 2019, Saudi Aramco, the Saudi state oil company, listed on the Saudi exchange and raised about **$29.4 billion**, including extra shares sold after the IPO under a so-called greenshoe option. IPOs happen on exchanges all over the world, and Lesson 4 looks at the most important ones.

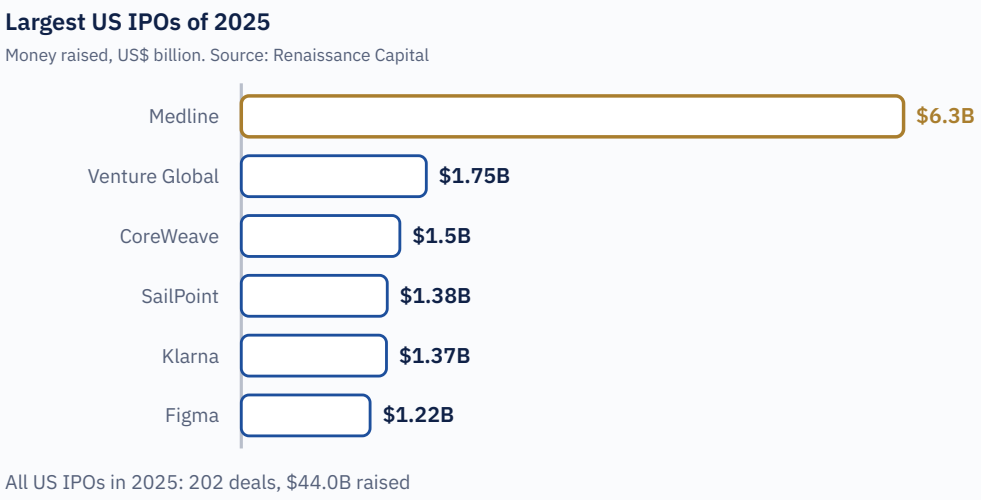

Figure 7. The six largest US IPOs of 2025 by money raised. Medline was by far the largest.

Why this matters for traders

- **New listings move fast.** IPO shares often swing widely in their first days and weeks, because there is no trading history and only part of the company's shares are available to trade.
- **Watch the lock-up calendar.** When a lock-up ends, many more shares can be sold. The date is published in advance in the prospectus.
- **The IPO price is a reference point.** Traders often watch whether a new stock holds above or falls below its IPO price.
- **IPO activity reflects market mood.** A wave of IPOs usually comes when investors are confident and prices are high, while a dry IPO market often goes with falling or uncertain markets.

Key terms

Private company	A company whose shares are owned by a small group and are not traded on a stock exchange.
Initial public offering (IPO)	The first sale of a company's shares to the general public, after which the shares are listed on an exchange.
Venture capital	Investment funds that buy stakes in young, fast-growing private companies.

Underwriter	An investment bank that helps a company prepare its IPO, set the price and sell the shares to investors.
Prospectus	The official document describing the company, its finances, its risks and the details of the share offer.
Book building	Collecting orders from investors to find out how much demand there is at each price before the IPO price is set.
IPO pop	A large rise in a new stock's price on its first trading day compared with the IPO price.
Primary market	Where companies sell new shares and receive the money.
Secondary market	Where investors buy and sell existing shares among themselves, without the company receiving money.
Lock-up agreement	A promise by insiders and early investors not to sell their shares for a period after the IPO, often 180 days.

Key takeaways

1. An IPO is the first time a private company sells shares to the public and lists them on a stock exchange.
2. Companies go public to raise money and give early investors a way to sell, but they accept costs, strict reporting and public pressure in return.
3. Underwriters prepare the offer, publish a price range and set the final IPO price using investors' orders. After that, the market sets the price.
4. The company only receives money in the primary market. Everyday stock trading happens in the secondary market, between investors.
5. IPO stocks are often volatile. Lock-ups, usually around 180 days, stop insiders from selling straight away, and a big first day says little about the long run.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. What is an IPO?

A. A company's first sale of shares to the public before listing on an exchange
B. A loan from a bank to a public company
C. A company buying back all its shares
D. A dividend paid once a year

2. What does an underwriter do in an IPO?

A. Buys the company outright
B. Advises the company, helps set the price and sells the shares to investors
C. Approves whether the company is a good investment
D. Runs the stock exchange

3. During book building, demand for an IPO is very strong. What usually happens?

A. The IPO is cancelled
B. The price range can be raised and the price set near or above the top
C. The price is always set at the bottom of the range
D. The shares are given away for free

4. Figma priced its IPO at $33 and closed its first day at $115.50. What is this jump called?

A. A lock-up
B. A dividend
C. An IPO pop
D. A greenshoe

5. John buys 10 Figma shares on his trading app a year after the IPO. Who receives his money?

A. Figma
B. The underwriters
C. The investor who sold him the shares
D. The regulator

6. What is a lock-up agreement?

A. A rule that closes the exchange at night
B. A promise by insiders not to sell their shares for a period after the IPO
C. A limit on how much a company's price can rise
D. A safe for share certificates

7. How is a direct listing different from a traditional IPO?

A. Existing shares start trading without underwriters selling new shares at a set price
B. It always raises more money
C. It can only be done by banks
D. It happens in the primary market only

8. Which is the largest IPO in history?

A. Figma in 2025
B. Medline in 2025
C. Saudi Aramco in 2019
D. Spotify in 2018

Answer key

1 A

A company's first sale of shares to the public before listing on an exchange

An initial public offering is the first time a private company offers its shares to the general public. After the IPO, its shares trade on a stock exchange.

2 B

Advises the company, helps set the price and sells the shares to investors

Underwriters are investment banks that prepare the offer, run book building and sell the new shares. Regulators review the documents, but they do not judge the quality of the investment.

3 B

The price range can be raised and the price set near or above the top

Strong demand allows the company to raise the range and price higher. Figma raised its range to $30 to $32 and then priced at $33.

4 C

An IPO pop

A big first-day rise above the IPO price is called an IPO pop. Figma closed about 250% above its IPO price.

5 C

The investor who sold him the shares

This is a secondary market trade between two investors. The company only receives money when it sells new shares in the primary market.

6 B

A promise by insiders not to sell their shares for a period after the IPO

Founders, employees and early investors usually agree not to sell for a period, often 180 days, so that the market is not flooded with shares right after the IPO.

7 A

Existing shares start trading without underwriters selling new shares at a set price

In a direct listing, existing shares simply begin trading, and the first price is set by buyers and sellers. The company usually raises no new money. Spotify listed this way in 2018.

8 C

Saudi Aramco in 2019

Saudi Aramco raised about $29.4 billion in 2019, including the greenshoe. Medline was the largest US IPO of 2025 with about $6.3 billion, and Spotify used a direct listing.

SOURCES

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