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GOING PUBLIC WITHOUT AN IPO

Earlier this year, the music streaming service Spotify went public without conducting an underwritten IPO, making it the largest company to do so through a direct listing. The author discusses Spotify's direct listing, the advantages and disadvantages of going public without an IPO, companies that make good candidates for direct listing, and the future of this approach to going public.

By John C. Partigan *

On April 3, 2018, shares of music streaming service Spotify began trading on the New York Stock Exchange. At the end of its opening day of trading, 30,526,500 shares were traded on the NYSE (ticker: SPOT), representing a value of approximately $4.55 billion based on the closing price on that day, making it the largest company to go public through a direct listing.[1]

Spotify's decision to go public without a traditional initial public offering was made possible by recent changes to the NYSE's listing requirements — which some commentators have dubbed the "Spotify rule," that went into effect on February 2, 2018.

In this article we'll discuss Spotify's direct listing, the advantages and disadvantages of going public without an IPO, companies that make good candidates for direct listing, and what this all means for the future of direct listing.

WHAT IS A DIRECT LISTING UNDER THE SPOTIFY RULE?

A "Direct Listing" simply means listing the shares of a company for trading on a stock exchange (in this case, the NYSE) without conducting an underwritten IPO, spin-off, or transfer of the listing from another stock exchange. The shares of a privately held company are publicly traded as a result of this process and the company becomes subject to the periodic reporting requirements under the Securities Exchange Act of 1934, but no new shares are issued to the public. Unlike a traditional IPO, no new capital is raised by the company. The primary purpose of a Direct Listing is to provide a liquidity event for the company's existing shareholders who purchased their shares in the private capital markets.

In a Direct Listing, the company is required to file with the U.S. Securities and Exchange Commission a resale shelf registration statement solely for the purpose

[1] The Spotify direct listing ranked as the 8th largest technology company IPO after its first day of trading, just behind Google in 2004, according to Dealogic. The shares traded on April 3, 2018 represented 17% of Spotify's ordinary shares outstanding as of March 21, 2018.

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