

The Role of Investment Banks in the Listing of Enterprises

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Abstract:

Initial Public Offering of Stocks (IPO) is a crucial juncture for enterprises to move from the non-public market to the public market. It not only helps enterprises raise long-term development funds but also assists them in improving their governance structure and enhancing brand awareness. This study highlights the significance of investment banks in this process. This study mainly analyzed the role of investment banks in IPOs from three time periods: the early stage, the middle stage and the late stage. This article analyzes the core functions of investment banks in the IPO of high-tech enterprises, such as professional consultation, due diligence and risk management, to reveal their key roles in enterprise screening, team building, market positioning and other aspects. Research has found that investment banks not only help enterprises successfully raise funds and enhance brand value, but also promote the standardization of their operations and the healthy development of the capital market. The research adopts a method that combines case analysis with functional review, which has practical guiding significance. It provides decision-making references for high-tech enterprises and investors and looks forward to the trend of in-depth cooperation between the two sides in fields such as green finance and technological innovation.

Keywords: Investment Bank, IPO, risk assessment, plan formulation, risk control.

1. Introduction

When a private company wants to sell its shares to the public for the first time, this is called an IPO. It is a very important step because the company has changed from being private to public, and now it has to follow more rules and deal with many new

investors. Investment banks help a lot in this process. They are not only responsible for the financial side, but also for giving advice, checking if the company is ready, and helping it look trustworthy for investors. This paper examines how companies prepare to go public and what investment banks do during this process.

2. Pre-IPO Evaluation and Analysis

2.1 Evaluation of Feasibility and Formulation of Strategic Plans

When a company starts to think about going public, the first thing that investment banks do is check if it is really ready for it. They work like doctors who check if the company is healthy enough. This means they look carefully at the company's financial reports, business model, and legal situation. This stage is not just a quick review of the company's books but a deep look at how it makes money, if its profits are stable, and if it can survive future risks.

If the company has unstable profits or too much risk, the bank might tell them to wait before going public. Sometimes they suggest changing the way the company explains its story to investors, focusing on growth potential rather than just short-term profit. They also review legal documents, like contracts and ownership of property or brands, to make sure there are no hidden legal problems [1].

After this careful review, the bank helps the company create a full plan for the IPO. This includes choosing the right stock market for listing. For example, scholars explained that a company from Italy with strong local roots might choose the Borsa Italiana to attract local investors [2]. But a tech startup that wants global growth might choose NASDAQ, where more technology investors are active. Investment banks also help companies change their structure before the IPO. Sometimes this means selling parts of the business that are not very important or too confusing for investors. It also means simplifying ownership structures to make the company more transparent and easier for investors to understand [3].

2.2 Reformation of Internal Governance and Compliance

When a company becomes public, it cannot work the same way as before. Many companies that start as family or founder-led businesses need to change how they manage things. Investment banks help them build a stronger and more professional management system.

In private companies, people sometimes make decisions informally, and this can cause problems with regulators when the company becomes public. Investment banks help create clear rules and policies to make the company more transparent. For example, they encourage companies to form independent boards that include outside experts, not just friends or family of the founder. This helps the company look more professional and build trust among investors [4].

They also help the company set up audit committees that can monitor how money is used and make sure everything follows legal standards. This process is not just about

passing laws about building a good reputation. When investors see that the company is well-managed, they feel more confident in buying its stock.

Overall, these governance changes are very important because they show that the company is ready for public life. As scholars, having a strong internal system is the foundation for long-term growth and success once a company is on the stock market [4].

2.3 Comprehensive Due Diligence and Pre-emptive Risk Mitigation

Before a company finally files for an IPO, the investment bank does something called forensic due diligence. This means they check every single detail to make sure there are no problems that could hurt the company later. The bank works with lawyers and accountants to find any risks, mistakes, or missing information. It's like a final inspection before the company faces the public market.

This step is defensive but also very important. It helps the company create a clear and honest story for investors and the official IPO documents. Investment bankers are trained to notice things that company managers might miss. For example, they check if all patents or key technologies are legally protected, and if the company depends too much on one client or product. If that is the case, it could be dangerous for the company's future [5].

An example is the San Lorenzo case, where the investment bank made sure the company told investors clearly about risks such as how the luxury yacht business could be affected by global economic changes. By doing this, the company looked honest and well-prepared. After finding problems, banks also help to fix them — maybe by settling old legal disputes, improving control systems, or explaining risks openly in the investor documents [5].

Doing this kind of work helps the company go through government review more smoothly. Scholars also said that companies that prepare well from the start usually have fewer surprises later and a better chance of finishing the IPO successfully [5].

3. The IPO Execution Phase

After all the careful preparation, it's time for the company to really go public. The investment bank now becomes more like a conductor of an orchestra, managing everything — how the shares are priced, how investors are contacted, and how all legal steps are finished. The goal is to make sure the company enters the market successfully.

3.1 Corporate Valuation Methodologies and the Pricing Equilibrium

One of the hardest parts of an IPO is deciding the price of the company's shares. The bank and the company have to agree on a price that makes investors interested but also

gives the company enough money. Investment banks use many ways to calculate this value.

One of the main methods is called Discounted Cash Flow (DCF). It looks at how much profit the company will make in the future and what that is worth today [6]. But this method can be tricky for young companies because it depends on many guesses about future growth. Another popular method is comparable company analysis (CCA), where the company is compared with other similar public companies. Choosing the right group of comparison companies can make a big difference [6].

Usually, during the first meetings (called “pitch” meetings), banks present a valuation range based on these models. Sometimes they adjust it a bit to win the client [7]. After that, the book-building process starts. The investment bank organizes events called “roadshows,” where company managers meet big investors and explain their story. The bank collects orders from these investors and studies how much demand there is for the stock. This helps decide the final price [7].

If the price is set too high, investors might not buy the stock and the IPO could fail. If it’s too low, the company loses money. Many banks prefer to price a little lower — this is called underpricing. It helps the stock rise on the first trading day and makes investors happy [8]. For example, San Lorenzo’s bank decided to set the price near the bottom of the range to make sure the launch went smoothly [9].

There is also discussion about why banks charge around a 7% fee for IPOs. Some people think this looks like collusion, but experts argued that it is just how competition in the market found a balance. The fee helps banks manage risks and cover their work [10]. He also said the 7% system is not about unfair control but about making sure banks can focus on quality and reputation [10].

3.2 Compilation and Supervision of Prospectus

The most important document in any IPO is the prospectus. It’s both a legal requirement and a marketing tool. Investment banks usually help write it. This document shows everything about the company — its finances, operations, and risks — and it must follow many strict laws. It has to be completely honest because even a small mistake or lie can cause big legal problems [11].

Investment banks also talk directly with government regulators, such as the U.S. Securities and Exchange Commission (SEC) or Italy’s CONSOB. They act as the link between the company and the regulators, making sure all forms and answers are correct. When regulators ask tough questions, banks help the company reply with the right information. For example, during the San Lorenzo IPO, the investment banks worked closely with CONSOB to make sure the company got final approval. They used good communication and careful editing to pass the review pro-

cess successfully [12].

4. Risk Management

When a company goes public, there are many risks. Markets can change fast, or legal problems can appear suddenly. Investment banks act like a shield, helping the company face these dangers. They protect both the company and the IPO process itself.

4.1 The Addressal of Information Imbalance and Legal Jeopardy

One big problem during an IPO is information imbalance. This means that the company knows everything about itself, but investors do not. This can make investors nervous. Investment banks try to reduce this gap by checking all the information carefully before it goes public.

They double-check management statements, business numbers, and all facts in the documents. This helps make sure everything is true and complete. When the bank confirms the company’s information, investors feel safer because the bank’s reputation supports the truth [13].

Banks also make sure that all legal rules are followed. Their lawyers review every part of the IPO paperwork, making sure that executive pay, ongoing lawsuits, and related business activities are clearly reported. A scholar says this is more than just a rule—it prevents future problems like lawsuits or penalties if something is hidden [14]. This legal and informational work helps create trust between the company and the public, which is one of the most important goals in any IPO.

4.2 Confronting Market Fluctuations and Securing Issuance Triumph

Another challenge in an IPO is that the stock market is not stable—it can go up and down quickly. Investment banks help the company prepare for this by creating backup plans.

They often pre-sell some shares to strong investors, called anchor investors, so that there is already demand before the public sale. This builds confidence for other investors. If demand seems weak after roadshows, the bank can change the offer size or the price range [15]. When banks sign firm commitment agreements, it means they promise to buy any leftover shares themselves. This shows they believe in the company. An expert explains that this also gives the market confidence that the offer will succeed [12].

Banks also watch how the market reacts during trading and can adjust plans quickly. For example, if demand is very strong, they might raise the final price or use a green-shoe option to sell more shares. If the opposite happens, they can lower the price or sell fewer shares. In the case of San Lorenzo, the bank used the greenshoe option to keep

the stock price stable after the first day [9].

Some people say that big banks work like a cartel and fix prices, but Hansen disagreed. He said the market is still competitive and that banks actually compete with their experience, service, and reputation. His research showed that the 7% commission rate is not a sign of collusion but a standard that allows fair risk sharing and efficiency [10].

4.3 Analytical Exposition: Bifurcation of Results Demonstrated

The IPO of San Lorenzo Yacht in 2019 is a good example of how a company can succeed when working closely with investment banks. The main banks — UniCredit, BofA Merrill Lynch, and IMI Bank — cooperated very closely from the start.

They did deep due diligence and helped make the prospectus very clear about risks, including how the company could be affected by the economy. The IPO was priced carefully at €16 per share, at the low end of the range, to attract more investors [9]. This decision helped the shares sell quickly and kept prices stable on the first trading day. Investors felt confident because the banks had done such detailed preparation. They also used the green shoe option to handle price changes smoothly. This case shows how strong teamwork between the company and the banks can make an IPO very successful.

A very different story happened with WeWork in 2019. The company planned a huge IPO but failed before it could even launch. Many problems came from poor governance and unrealistic promises.

Investment banks did not catch these problems early enough. The founder made unusual business decisions, like renting his own buildings to the company and taking out loans from it. Founder Adam Neumann's conduct severely eroded trust. Controversies included the company paying him \$5.9 million for the „We“ trademark and governance provisions like allowing his wife a role in succession planning. Furthermore, The IPO attempt followed poor post-IPO performances of other loss-making unicorns like Uber and Lyft. Investor appetite had turned, demanding a clear path to profitability over pure growth stories. The market was no longer willing to finance unchecked expansion. These things should have been warning signs, but they were ignored [10].

When the prospectus was finally released, investors and the media noticed the problems immediately—huge losses, unclear management, and an unclear business model. The IPO had to be canceled, and WeWork's value dropped sharply afterward.

This case shows what can go wrong when banks do not act as strong gatekeepers. The lesson is that good preparation, honest reporting, and careful checking are the keys to a healthy IPO process. It serves as a stark reminder to distinguish genuine technological innovation and network

effects from capital-subsidized scale in a traditional industry. It also proves that competition and professionalism in investment banking are very important for protecting both the company and investors.

5. Conclusion

In the end, the IPO process is a long and detailed journey that changes a company forever. Investment banks play a big role not only by helping companies raise money but also by guiding them through all the hard steps, from checking their financial health to dealing with laws and markets. With careful planning and teamwork, companies can enter the public market with confidence and success.

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