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Going public without an IPO: can Brazilian startups adopt Spotify's strategy?

On April 3 this year, Spotify Technology S.A. debuted on the New York Stock Exchange (NYSE). The shares of the popular music, video and podcast streaming service then closed at US$ 149.01, resulting in a market capitalization of roughly US$ 26.5 billion.

Spotify's public listing drew the attention of both Wall Street and Silicon Valley because the company adopted an unusual strategy by choosing not to raise new money. The company only listed its shares on NYSE to increase their liquidity. It would be technically wrong, therefore, to call it an IPO (initial public offering), since there was no public offering of shares.

In this "direct listing" process, Spotify saved tens of millions of dollars by waiving the services of investments banks. These Wall Street middlemen usually take part in roadshows to potential investors, assist the company in the initial pricing of the shares and may guarantee the subscription. Spotify, owning the largest global subscriber base in the music streaming industry, leveraged its popular brand to create a direct connection with the investors interested in its shares without the traditional assistance from investment banks. By doing that, Spotify also accepted the risk of increased volatility without an IPO's benchmark price for investors to go on.[1]

One can believe that only large companies, without the need of immediate funding and widely known by the market, could afford to go public that way. It is not necessarily so.

Spotify's direct listing can inspire Brazilian midsize startups. One of its upsides is to allow the company to gradually adapt to the governance and transparency standards required by the market. The direct listing also increases shares' liquidity without immediate dilution of the shareholders, who are able to sell their shares gradually, at market price. Furthermore, when the company decides to raise funds from the market, it will be an asset already visible, known and priced.

Brazilian capital market has examples of companies that chose that path, such as Senior Solution (information systems for the financial industry), Statkraft (electricity from renewable sources of energy), Smart Fit (fitness centers), BR Home Centers (retail of building materials), Maestro Frotas (fleet outsourcing) and Nutriplan (gardening and decoration).

The direct listing process should not be confused with the registration with the Brazilian Securities Commission (CVM) of a public offering of shares, neither with the registration for trading in the over-the-counter market (whether organized or not). "Listing" refers to having the stocks admitted for trading in a stock exchange. "Direct listing" refers to the same, but without a previous or simultaneous IPO.

Following Law No. 6,385, of December 7, 1976, Instruction CVM No. 480, of December 7, 2009, admits applications for trading stocks on the stock exchange without a simultaneous application for a public offering of such stocks. Once the trading registration is approved by CVM (in this case, in the "A" category, for trading on the stock exchange), the company may join one of the listing segments of B3 S.A. – Brasil, Bolsa, Balcão (the São Paulo stock exchange).

The rules of the special listing segments of B3, i.e., *Bovespa Mais* and *Bovespa Mais Nível 2*, admit the direct listing (listing without an offer) and require a minimum 25% free float within seven years from the listing.

Direct listing is also possible under the rules of the other listing segments of B3 (*Novo Mercado*, *Nível 2*, *Nível 1* and *Segmento Básico*). However, in those segments an immediate minimum free float is required (25% as a rule), as well as governance and disclosure rules that may be too burdensome for startups.

[1] *"Further, the listing of our ordinary shares on the NYSE without underwriters is a novel method for commencing public trading in our ordinary shares, and consequently, the trading volume and price of our ordinary shares may be more volatile than if our ordinary shares were initially listed in connection with an underwritten initial public offering."* (Excerpt of the Spotify Form F-1 presented to the Securities and Exchange Commission – SEC)

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Direct listing is an alternative with potential to attract Brazilian startups interested in democratizing access to their stocks. If this trend is confirmed, it may contribute to the development of the Brazilian capital market by enabling the entry of new companies and investors.

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