

Going Public: Legal Forms, Corporate Development, and the Decision to List — from the Sole Proprietorship via GmbH and AG to the IPO in Austria, Germany and Switzerland

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Abstract

This paper examines the question of when it makes sense for a company to become publicly listed. To that end it develops the complete development path: from the choice of legal form — partnerships, GmbH and FlexCo, AG, KGaA, and SE in Germany and Austria as well as the GmbH and AG under the Swiss Code of Obligations — through the financing stages of the corporate life cycle, including mezzanine capital and management buy-outs, to the conversion from GmbH to AG and finally to the initial public offering (IPO). The paper draws on the capital markets literature from Modigliani and Miller (1958) through Jensen and Meckling (1976), Rock (1986), and Pagano, Panetta, and Zingales (1998) to Doidge, Karolyi, and Stulz (2017) and combines it with the institutional rules of the Frankfurt, Vienna, and Zurich exchanges.

Three fully worked applications quantify the decision: a management buy-out with a mezzanine tranche (entry at 6.25 times EBITDA, equity multiple of 2.9 over five years), an IPO of 160 million euros combining a capital increase with a secondary placement (free float 32 percent, direct costs 5 percent, underpricing 15 percent), and the wealth balance of the selling owners. The finding: going public pays when capital needs exceed the capacity of internal financing, bank credit, mezzanine, and private equity, when the organisation can carry transparency and disclosure obligations, and when the owners are willing to share control with the capital market — and it fails wherever one of these three conditions is missing.

For corporate leaders, the paper offers a decision framework: which legal form suits which business idea and company size, which advantages and disadvantages listing

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brings — capital raising, acquisition currency, and reputational gain against ad hoc disclosure, quarterly pressure, price disappointments, and takeover risk — and by which thresholds the right moment can be recognised. The paper is intended as a didactic synthesis, not as a recommendation for the individual case.

Keywords: Going public · IPO · choice of legal form · GmbH · stock corporation · underpricing · free float · management buy-out · mezzanine capital · corporate control.

JEL codes: G24, G32, G34, K22, L26.

Non-Technical Summary

Every company starts small: as a sole proprietorship or partnership in which the founders are liable with their private wealth. As the business grows, the GmbH usually follows — liability limited, shares firmly in the hands of a few owners. For most companies the journey ends here, and reasonably so. A small share, however, keeps growing, needs more capital than banks and owners can provide, and then faces the question this paper answers: When is the step to a stock corporation, and on to the exchange, worthwhile?²

The paper traces this path in full. It explains the legal forms in Austria and Germany which form suits which business idea and headcount. It describes the financing ladder in between: bank credit, venture capital, private equity — and mezzanine capital, the hybrid of equity and debt with which growth and ownership changes can be financed without immediately giving up voting rights. A dedicated chapter covers the management buy-out: the purchase of the company by its own management, often the alternative or the precursor to going public.

Going public itself is appraised soberly. On the credit side stand fresh equity in almost any magnitude, a currency for acquisitions and employee ownership, visibility, and the owners' ability to turn their life's work into money without selling it. On the debit side stand substantial costs — in the worked example, five percent of the issue volume directly, plus underpricing, the deliberately low offer price —, furthermore transparency duties up to the immediate ad hoc disclosure of bad news, the capital market's impatience with disappointments, and the risk of becoming a takeover target once many shares trade freely.

The central message to corporate leaders: going public is not a knighthood but a trade. The company gains access to the deepest capital pool in the world and pays with transparency, shared control, and permanent accountability. This trade pays beyond a certain size, maturity, and capital intensity — and it does not pay for business models that can finance themselves or with private capital and whose strength lies precisely in the quiet of privacy.

The step should be prepared long in advance: legal form, accounting, leadership organisation, and communication must be exchange-ready before the first bank is mandated. The costliest mistakes in stock market history are not failed IPOs but successful IPOs of unprepared companies.

² Going public is not a one-off transaction but a permanent change of corporate state; the decision should therefore never be justified by the capital needs of a single year alone.

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1 Introduction

Few entrepreneurial decisions transform a company as fundamentally as going public. A firm whose shares rest in few hands and whose numbers nobody but the tax office knows becomes a public company: valued daily, questioned quarterly, obliged to disclose price-relevant facts immediately — and endowed, in return, with an access to equity that no other form of financing offers. The question of when this trade pays is among the oldest in corporate finance, and it poses itself anew to every generation of entrepreneurs: its answer depends on legal form, size, capital needs, and owner objectives as much as on the state of the capital markets.³

The academic literature has surveyed the components of the answer. The irrelevance proposition of Modigliani and Miller (1958) set the reference point from which financing decisions become explicable at all; Jensen and Meckling (1976) founded the agency costs of separating ownership and control, and Myers and Majluf (1984) the pecking order of financing. IPO research supplied the empirical cornerstones: systematic underpricing (Ibbotson, 1975; Rock, 1986), the long-run underperformance of new issues (Ritter, 1991; Loughran and Ritter, 1995), the motives for going public (Zingales, 1995; Pagano, Panetta, and Zingales, 1998; Brau and Fawcett, 2006), and most recently the counter-movement — the retreat from the public capital market (Gao, Ritter, and Zhu, 2013; Doidge, Karolyi, and Stulz, 2017; Ewens and Farre-Mensa, 2020). The buy-out literature from Jensen (1986, 1989) through Kaplan (1989) to Kaplan and Strömberg (2009) describes the private alternative.

The contribution of this paper lies in combining this literature with the institutional framework of the German-speaking region into a decision framework for corporate leaders: it organises the legal forms from the partnership to the SE by business idea and company size, develops the financing ladder including mezzanine capital and the management buy-out, traces the logical path from the GmbH via the AG to the IPO, and appraises the benefits and pitfalls of listing — capital raising, voice, free float, hostile takeovers, ad hoc disclosure, and price disappointments — in three fully worked examples. All examples are hypothetical and serve illustrative purposes.

The paper is structured as follows. Section 1 (the present section) introduces the research question and surveys the literature. Section 2 maps the legal forms in Austria and Germany and matches them to business ideas and company sizes. Section 3 develops financing along the corporate life cycle, Section 4 deepens mezzanine capital, and Section 5 the management buy-out with a worked example. Section 6 covers the conversion from GmbH to AG, and Section 7 the IPO process and the market segments in Frankfurt and

³ All numerical examples in this paper are hypothetical, computed before taxes and transaction costs, and do not constitute investment, legal, or tax advice; statements on company and capital markets law refer to Germany and Austria and render the position as of mid-2026 in simplified form.

Vienna. Sections 8 and 9 appraise the benefits and costs of going public in a fully worked IPO, and Section 10 analyses free float, the takeover market, and the protection of control. Section 11 condenses the findings into a decision framework, Section 12 describes life after the IPO including the way back (delisting), and Section 13 concludes with an outlook.

2 Legal Forms in Austria, Germany and Switzerland: a Map

2.1 Partnerships: Simplicity against Liability

At the beginning of almost every corporate history stands the simplest form: the sole proprietorship. It arises without formality, costs nothing, knows neither corporate organs nor disclosure — and in return ties the owner's entire private wealth to the business. When several founders join forces, a civil-law partnership arises, and for a commercial operation the general partnership OG (in Germany OHG): joint management, joint, unlimited, and joint-and-several liability. The limited partnership (KG) softens this principle for the first time: alongside the fully liable general partner stand limited partners whose risk is capped at their contribution — historically the first separation of capital provider and manager, and thus the ancestor of all later capital-pooling forms.⁴

For which business ideas do these forms suffice? For all whose risk is manageable and whose capital needs are small: services, crafts, consulting, the liberal professions — businesses that live from the personal effort of a few people and typically manage with one to nine employees. Unlimited liability is not only a risk but also a signal: standing in with private wealth documents confidence in the business, which lenders reward (Leland and Pyle, 1977). As soon as the business scales, however — more employees, inventories, product liability, debt — personal liability becomes an existential threat, and the move into a corporation is economically imperative.

2.2 GmbH, UG, and FlexCo: the Standard of the Mittelstand

The limited liability company (GmbH) is the most successful legal form of the German-speaking region — well over a million companies in Germany alone — and for good reason: it caps liability at the company's assets while remaining internally as flexible as a partnership. The shareholders determine management, profit distribution, and share transfers almost freely by contract; the shareholders' meeting can issue binding instructions to the management — the decisive difference from the stock corporation, as Section 6 sets out. The minimum share capital is, since 2024, only 10,000 euros in Austria and 25,000 euros in Germany; for founders with minimal capital needs there are the German entrepreneurial company from one euro and, since 2024, the Austrian Flexible Company

⁴ In Austria, the OG and KG correspond largely to the German OHG and KG; the GbR is called GesbR there. The GmbH & Co. KG combines the KG with a GmbH as the liable general partner.

(FlexCo), which additionally permits non-voting enterprise value shares for employee participation.⁵

The GmbH is the natural form for the bulk of growing companies: from the technology start-up through the manufacturer to the family business with hundreds of employees. Its limits lie on the capital side. GmbH shares are not securities: their transfer requires notarisation, there is no organised market, and new shareholders must be admitted one by one. Outside equity therefore flows only through negotiated participations — business angels, venture capital, private equity — each entry of which is a contractual edifice. Exactly here begins the logic of the change of legal form: raising equity repeatedly or from a large number of investors requires a share transferable without notarisation — the stock.

2.3 AG, KGaA, and SE: the Capital-Pooling Forms

The stock corporation is engineered as a capital pool. Its capital is divided into shares — standardised, freely transferable membership rights that change owners without notarial form and are thus exchange-ready. Its constitution is tripartite: the management board conducts business on its own responsibility and — unlike the GmbH managing director — is precisely not bound by owner instructions; the supervisory board appoints, oversees, and dismisses the management board; the general meeting of shareholders decides on the articles, capital measures, and profit appropriation. This distribution of power is largely mandatory (strictness of the articles), for it protects future shareholders who do not negotiate the corporate contract: every acquirer of a share must be able to rely on the same constitution.⁶

Two variants deserve mention because they play strategic roles on the way to the exchange. The partnership limited by shares (KGaA) combines exchange-ready shares with a personally liable general partner who conducts the business and whose position cannot be touched by the general meeting — the vehicle of choice for families who want to raise capital and keep control; prominent recent German IPOs such as Ottobock (2025) use exactly this structure. The European Company (SE), in turn, permits the one-tier board model and freezes employee codetermination at the level of the conversion date, which makes it attractive for growing companies below the thresholds of the codetermination statutes.

⁵ With the Company Law Amendment Act 2023, Austria lowered the GmbH minimum share capital to 10,000 euros as of 1 January 2024 and introduced the FlexKapG (FlexCo) at the same time; in Germany, 25,000 euros still applies to the GmbH and one euro to the entrepreneurial company (UG).

⁶ The minimum share capital is 50,000 euros for the German and 70,000 euros for the Austrian AG, and 120,000 euros for the SE; the KGaA additionally requires at least one personally liable general partner, which may itself be a GmbH or SE.

2.4 Which Form for Which Business Idea and Size

From liability, capital access, and organisation follows a clear mapping of legal form, business idea, and company size, which Table 1 summarises. The logic behind it is economic, not legal: each rung of the legal-form ladder buys additional capital access and liability protection and pays with formation effort, disclosure, and formality. A three-person consultancy would be grotesquely over-organised as an AG; a machine builder with 800 employees and export risks would be dangerously under-organised as an OG or OHG.⁷

Table 1: Legal forms in Austria and Germany at a glance

Legal form	Minimum capital	Liability	Typical size	Typical business idea
Sole proprietorship	—	unlimited, personal	1–9 employees	crafts, trade, liberal professions
GbR/GesbR, OHG/OG	—	unlimited, joint and several	2–20	professional firms, small businesses
KG / GmbH & Co. KG	—	general partner unlimited, limited partners capped	10–500	Mittelstand, family businesses
UG / FlexCo	€1 / €10,000	capped at company assets	1–20	start-ups, founding phase
GmbH	€25,000 (DE) / €10,000 (AT)	capped at company assets	5–2,000	high-growth Mittelstand of all industries
AG (unlisted)	€50,000 (DE) / €70,000 (AT)	capped at company assets	from ca. 250	capital-intensive expansion, IPO preparation
KGaA	€50,000	general partner unlimited, shareholders capped	from ca. 500	family businesses with capital needs and a desire for control
SE	€120,000	capped at company assets	from ca. 500	internationally active groups

Source: own compilation after GmbHG, AktG, FlexKapGG, and the SE Regulation; sizes as practical guidelines.

Table 1 reads from top to bottom as a growth story — and that is exactly how it is meant. The legal form is not a creed but a tool, and it should follow the business, not the other way round. Two empirical observations support this view: first, successful companies change their legal form several times over the life cycle on average; second, headcount is a better predictor than age, because it drives liability, organisation, and codetermination questions alike. For the question of this paper, one insight suffices: the road to the exchange leads of necessity through the share — and thus through AG, KGaA, or SE as the last rung of the ladder.

⁷ The headcounts are practical guidelines, not legal limits; legally decisive are, among others, the German codetermination thresholds of 500 (one-third participation) and 2,000 employees (parity codetermination).

2.5 Special Paths: Cooperative, Foundation, and GmbH & Co. KG

Beside the main road of the legal-form ladder run special paths that are the better answer for certain business ideas. The cooperative organises companies whose purpose is to serve their members — cooperative banks, winegrowers, housing, increasingly energy communities; its capital grows with its members, and an IPO is alien to the system. The enterprise-linked foundation solves the opposite problem: it perpetuates a life's work beyond succession by decoupling ownership from the family cycle — often combined with a listed subsidiary, so that capital market access and the foundation's purpose coexist. And the GmbH & Co. KG remains the workhorse of the upper Mittelstand because it combines limited liability with tax transparency and great contractual freedom.⁸

For the question of this paper, the special paths are instructive as a control group: they show that capital access is not the only yardstick of legal form choice. Where member service, purpose commitment, or tax transparency come first, exchange readiness is simply not a criterion — and the best advice to a corporate leadership begins with the question of which problem the legal form is meant to solve, not with the question of which form is the biggest.

2.6 Taxes as a Switchman of Legal Form Choice

Across liability and capital access runs the tax dimension. Partnerships are taxed transparently: profit is attributed directly to the partners and subject to their income tax — attractive when withdrawals are needed and in loss phases, burdensome with high retained profits. Corporations follow the separation principle: the company pays corporate income tax and, in Germany, trade tax (together typically around 30 percent, in Austria 23 percent corporate income tax), and only distribution triggers taxation at the shareholder level. For growth-oriented companies that retain and reinvest profits, the separation principle is regularly more favourable — a tax advantage on the road to the corporation that reinforces the company-law logic of this paper.⁹

On the IPO road itself, one point deserves particular attention: the hidden reserves of the old shareholders. Selling shares — whether to an investor, in the buy-out of Section 5, or in the secondary placement of Section 8 — realises value gains that are taxed differently depending on holding period, stake size, and legal form. Structuring the ownership before the IPO (holding structures, family entities) is therefore an advisory field of its own with long lead times — one more reason to think of the road to the exchange in years, not months.

⁸ Mixed forms are common as well: a foundation holds the majority of a listed AG, combining capital market access with the perpetuation of the corporate purpose.

⁹ The statements are deliberately rough; trade tax multipliers, allowances, retention reliefs, and shareholder taxation shift the picture considerably in the individual case — legal form choice belongs in the hands of tax advisers.

2.7 Size Thresholds of the Law: Disclosure Grows Along

Whatever the chosen form, disclosure grows with the company. Accounting law grades duties by size classes of balance sheet total, revenue, and headcount: micro companies deposit abridged balance sheets, small ones publish without detailed notes, and medium-sized and large companies publish audited statements with a management report. Crossing the thresholds increases the disclosure obligations, irrespective of intent. This staircase puts a common argument against going public into perspective: the complete discretion that some owners believe they are defending no longer exists above the small business anyway; the step to the exchange enlarges disclosure considerably, but it does not start from zero.¹⁰

For legal-form planning, a practical piece of advice follows: reporting capability should run ahead of the thresholds. A company that orders its numbers only under the pressure of the size class experiences every threshold as a crisis; one that reports group-ready early experiences it as a formality — and has incidentally acquired half the IPO readiness of Section 7 before a banker was ever in the house.

2.8 Switzerland: Legal Forms under the Code of Obligations

Switzerland organises its legal forms in the Code of Obligations (Obligationenrecht, OR) and follows the same basic logic as Austria and Germany — from the sole proprietorship through the partnerships (general and limited partnership) to the GmbH and the Aktiengesellschaft (AG). The GmbH requires nominal capital of 20,000 Swiss francs, fully paid in; the AG requires share capital of at least 100,000 Swiss francs, of which at least 20 per cent per share — and no less than 50,000 Swiss francs in total — must be paid in at incorporation. Unlike the two-tier system of management board and supervisory board, a single-tier board of directors (Verwaltungsrat) governs the Swiss company; Swiss law knows no employee codetermination on the board comparable to the German model.

The revised company law, in force since 1 January 2023, has made the capital structure considerably more flexible: the capital band allows the board of directors to increase or reduce the share capital within a range of plus or minus 50 per cent over up to five years, the share capital may be denominated in a foreign currency, and general meetings may be held virtually. For the road to the exchange, the AG is therefore — as in Austria and Germany — the natural form; the conversion from GmbH to AG follows the same logic described in Section 6.

Cantonal tax competition and the proximity of the Zurich financial centre additionally shape the choice of form. The size thresholds of disclosure follow audit law: an ordinary

¹⁰ With the EU sustainability reporting requirement (CSRD), a further size-dependent reporting dimension is emerging, whose scope and timetable have been adjusted several times of late.

audit becomes mandatory once two of three thresholds are exceeded in two consecutive financial years — total assets of 20 million Swiss francs, revenue of 40 million Swiss francs, or 250 full-time positions.

3 Financing over the Corporate Life Cycle

3.1 The Financing Ladder

Legal form and financing are two sides of the same development. At the outset, the company finances itself from the founders' own funds, family, and grants — not by preference but because outsiders cannot assess the young business: there is no history, no audited accounts, no collateral. With every growth stage this information asymmetry declines and new capital sources come within reach: first bank credit against collateral, then venture capital against shares, then private equity and mezzanine, finally the organised capital market. Figure 1 matches this financing ladder to company phases and legal forms.¹¹

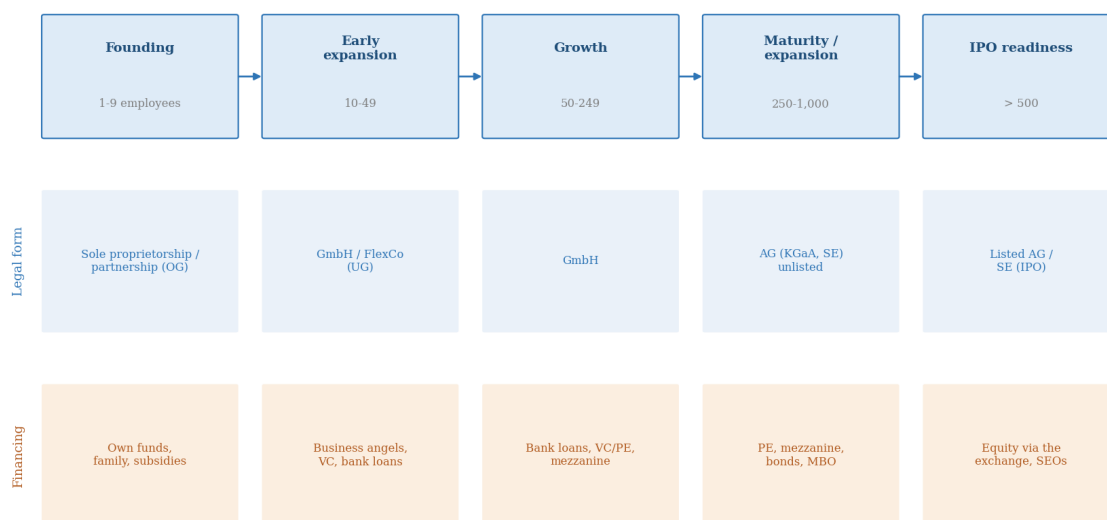


Figure 1: Company phases, typical legal forms, and financing sources over the life cycle (schematic; sizes as guidelines).

Source: own illustration after Berger and Udell (1998).

The ladder in Figure 1 is no automatism — most companies remain on a middle rung for good reasons — but it is a sequence: rungs can rarely be skipped. A company without a venture capital or private equity history can reach the capital market technically, but it then usually lacks what investors want to see in an IPO candidate: professionalised reporting and leadership structures, tested governance, and owners accustomed to

¹¹ Berger and Udell (1998) formalised this relationship as the financial growth cycle: information availability, firm size, and financing source develop together.

accountability. Megginson and Weiss (1991) show empirically that venture-backed IPOs exhibit lower underpricing — certification by professional early investors lowers the capital costs of going public.

3.2 The Pecking Order and the Lever

Why outside equity is the last rather than the first source is explained by financing theory. In the frictionless world of Modigliani and Miller (1958), the financing structure would be irrelevant; in reality there are taxes, insolvency costs, and above all information asymmetries. Myers and Majluf (1984) show: because management knows more than outside investors, the latter read every share issue as a signal of possible overvaluation and demand a discount — which is why companies use retained earnings first, then debt, and external equity only last. Debt moreover has a property that accelerates and endangers growth at once: the lever. Equation (1) summarises the leverage effect:¹²

$$r_E = r_A + (r_A - i) \cdot D/E \quad (1)$$

Equation (1): The return on equity r_E rises with the debt-equity ratio D/E as long as the return on assets r_A exceeds the interest rate i — and falls in mirror image once it slips below. An example with the figures of the buy-out chapter: with a 10 percent return on assets, 6 percent interest, and a debt-equity ratio of 1.5, the return on equity is 16 percent. The lever explains why growth on debt is attractive — and why Section 5 deploys it systematically in the buy-out.

For the question of this paper, the pecking order has an important consequence: going public stands not at the beginning but at the end of the financing alternatives — it becomes relevant when internal financing and debt are exhausted and the remaining equity need exceeds the capacity of private investors. Listing although bank credit or a private participation would have sufficed means using the most expensive capital source for a problem that cheaper sources would have solved.

3.3 Outside Equity: Business Angels, Venture Capital, Private Equity

Between bank credit and the exchange lies private equity capital, graded by maturity. Business angels invest their own money and experience in the founding phase; venture capital funds finance scalable business models in rounds against minority stakes with strong contractual rights; private equity funds take over mature companies with majority stakes, frequently with substantial debt. Common to all three forms is the active owner: unlike the anonymous capital market, private investors sit on the advisory board, help fill key

¹² The preference sequence internal financing — debt — external equity is known as the pecking order theory (Myers, 1984; Myers and Majluf, 1984).

positions, and plan their exit from the start — through sale, secondary buy-out, or precisely the IPO. Black and Gilson (1998) see in this exit option the link between the capital markets: a lively IPO market is the precondition of a lively venture capital market, because it opens the most valuable exit to early investors. Table 2 matches the sources to the phases.¹³

Table 2: Financing sources by company phase

Phase	Typical source	Magnitude	Consideration	Typical horizon
Founding	own funds, family, grants	up to €0.5m	—	unlimited
Early stage	business angels, seed funds	€0.1–2m	minority stakes	5–8 years
Expansion	venture capital	€2–50m	shares, control rights	5–10 years
Growth/maturity	bank credit, mezzanine, private equity	€5–500m	interest, subordination, majority	3–7 years
IPO readiness	IPO and follow-on offerings	from ca. €50m	free float, disclosure	permanent

Source: own compilation after Berger and Udell (1998) and Kaplan and Strömberg (2003); magnitudes as practical guidelines.

Table 2 makes the place of the IPO in the financing landscape visible: it is the only source without an expiry date. Every private investor wants out after five to ten years; the exchange, by contrast, provides equity permanently and renews the investor base daily in trading. This permanence is the structural advantage of listing — and at the same time its obligation, for accountability then knows no expiry date either.

3.4 The Foundation: Internal Financing, House Bank, and Schuldschein

For all the attention paid to venture capital and the exchange, the foundation of corporate financing remains unspectacular: retained earnings and bank credit. Internal financing is the cheapest and most discreet of all sources — it dilutes nothing, reports nothing, and disciplines by itself, because only earned money can be spent; its price is pace, for it grows only as fast as the business. Bank credit levers this foundation: in the house bank model of the German-speaking region, one institution accompanies the company over decades, knows its cycles, and carries dry spells that an anonymous capital market would punish. For larger Mittelstand companies the Schuldschein is added — the unbureaucratic debt instrument between loan and bond that places tens of millions with institutional investors without prospectus or rating.¹⁴

¹³ Kaplan and Strömberg (2003) document the contracting technology of venture capital: liquidation preferences, anti-dilution protection, milestone financing, and control rights that shift with the company's development.

¹⁴ Development banks such as KfW in Germany and aws in Austria cheapen credit for small and medium-sized companies through refinancing and guarantees and belong in every Mittelstand financing architecture.

The limits of this foundation define the rest of the ladder. Credit needs collateral and debt service capacity — it finances the existing well and the uncertain badly; for research, market entry, and intangibles it is structurally the wrong instrument. Exactly at this edge begins the need for equity and its intermediate forms — and with it Sections 4 and following. Recognising the threshold too late and financing growth with credit where equity was required puts the company's existence at risk in the first crisis.

3.5 New Sources: Crowdfunding and Venture Debt

Digitalisation has added two new rungs to the financing ladder. Crowdfunding collects many small amounts via platforms — legally mostly as subordinated loans or through the FlexCo's enterprise value shares — and suits consumer-facing business models whose customers become investors and ambassadors at once; the amounts stay small, the communication effort is considerable, and crowd financing is more marketing with capital effect than capital market. Weightier is venture debt: specialist lenders extend the runway of venture-backed companies between two equity rounds, against high interest and warrants — debt for companies no bank would lend to, possible only because the venture investor stands behind them as a quality signal and de facto backstop.¹⁵

Both sources confirm the pattern of this paper in miniature: every new financing form arises where information asymmetries leave a gap between the established rungs, and each prices its gap with a mix of interest, shares, and control rights. For the IPO question they are precursors, not alternatives: the use of crowd capital or venture debt indicates the capital need, but not yet the maturity, of the public market.

3.6 How Much Equity Does a Company Need?

Before deciding on the source of equity, the quantity belongs on the table. Theory spans the frame: under the trade-off view of capital structure, the tax advantage of debt is set against growing insolvency and behavioural risks (Myers, 1984); the pecking order of Section 3.2 adds the sequence. Practice translates both into ratios: debt to operating earnings, interest cover, equity ratio — calibrated to industry, cyclicity, and capital intensity. A machine builder with project risks needs more buffer than a residential landlord with plannable rents; a software house without lendable assets more equity than a trader with inventory values.¹⁶

The equity question is thus always a risk question: equity is the buffer that absorbs mistakes, cycles, and surprises without third parties being able to call their money. From

¹⁵ Venture debt is typically extended between equity rounds, secured on rights and receivables, and compensated with warrants on shares — a mezzanine variant for venture-backed companies.

¹⁶ Graham and Harvey (2001) show in their large practitioner survey that CFOs name target leverage ratios and credit ratings as the most important reference variables of capital structure — closer to practice than to pure theory.

this follows the bridge to the IPO question of this paper: the need for public equity arises where the business model permanently demands more buffer than retained earnings and private sources can build — typically in capital-intensive expansion, long development cycles, or acquisition-driven growth. Where the buffer is reachable privately, the exchange is optional; where it is not, it becomes the duty.

4 Mezzanine Capital: the Intermediate Floor of Financing

4.1 Concept and Instruments

Between the secured bank loan and voting equity lies a whole floor of financing forms that market usage calls mezzanine capital, after the Italian word for an intermediate storey. What they share is their position in the ranking: in insolvency they are served after all senior creditors but before the shareholders. For this elevated risk, mezzanine providers demand a return well above the loan rate — typically in the high single-digit to low double-digit percentage range — but as a rule waive voting rights and collateral. Exactly this combination makes the intermediate floor attractive for growth companies: it strengthens the economic equity base and thereby widens the credit envelope without touching the ownership structure. Table 3 organises the main instruments.¹⁷

Table 3: Mezzanine instruments at a glance

Instrument	Character	Compensation	Voting rights	Typical use
Subordinated loan	debt-like	fixed interest, subordinated	no	growth and acquisition financing
Silent participation (typical)	debt-like	profit share, fixed plus no variable	no	Mittelstand, discreet capital strengthening
Participation right (Genussrecht)	depends on design	profit-linked, loss participation possible	no	balance sheet equity strengthening
Convertible bond	hybrid	coupon plus conversion right into shares	after conversion	near-IPO companies, bridge financing
Warrant bond	hybrid	coupon plus subscription right	after exercise	issuance with equity kicker
Vendor loan	debt-like	fixed interest, subordinated	no	price bridge in succession and buy-outs

Source: own compilation based on data from Berger and Udell (1998).

The instruments in Table 3 differ in one detail that matters for the IPO question: their proximity to the share. Subordinated loans and silent participations remain pure financing relationships; convertible and warrant bonds, by contrast, carry an equity promise within them and de facto presuppose that exchange-ready shares will one day exist to convert

¹⁷ Whether mezzanine capital counts as equity or debt on the balance sheet depends on subordination, maturity, loss participation, and callability; the classification under HGB/UGB, IFRS, and banking supervision can diverge.

into. Issuing such instruments implicitly sets out on the road to the AG and often to the exchange — mezzanine is thus not only the intermediate floor of the balance sheet but frequently also the intermediate station of the development path of this paper.

4.2 Costs, Benefits, and Typical Uses

Mezzanine terms in practice consist of three components: a cash coupon, a capitalised interest portion (PIK), and frequently an equity kicker — a participation in the enterprise value, for instance via warrants. The capitalised portion compounds according to equation (2):¹⁸

$$M_T = M_0 \cdot (1 + k_{PIK})^T \quad (2)$$

Equation (2): Mezzanine capital M_0 with a capitalised interest rate k_{PIK} grows to M_T by maturity T . In the worked example of Section 5, 10 million euros with 5 percent PIK become 12.76 million euros of repayment over five years — in addition to the 7 percent cash coupon. The total return of about 12 percent thus lies between the loan rate and the return on equity, exactly as the ranking suggests.

When is this expensive intermediate form worthwhile? In three typical situations. First, growth without collateral: the company has sustainable earnings but no more lendable assets — mezzanine fills the gap between exhausted credit and an unwanted sale of shares. Second, in succession and buy-outs, where the purchase price exceeds credit capacity and the buyers do not want to dilute their stakes; Section 5 works this case through. Third, as a bridge to the exchange: convertible and warrant bonds finance the last growth years before the IPO and convert into equity with the listing. The instrument's limit is its service burden: coupon and PIK must be earned from future profits, and where the business model does not yield them, mezzanine merely postpones the equity question — with compound interest.

4.3 Market Practice and the Lessons of Programme Mezzanine

The mezzanine market of the German-speaking region has an instructive history. In the years before the financial crisis, standardised programmes were launched that bundled the participation rights of hundreds of Mittelstand companies, securitised them, and placed them in the capital market — mezzanine on an industrial scale, cheap and fast, but without the accompaniment that individually negotiated capital provides. When the programmes fell due in clusters from 2011, the refinancing burden met the post-crisis balance sheets of many borrowers: those that had treated the cheap subordinated capital like equity without

¹⁸ PIK stands for payment in kind: the interest is not paid currently but added to principal and settled only at maturity — easy on liquidity, but compounding.

earning it faced the choice between expensive replacement and restructuring. The episode is the mezzanine version of a basic rule of this paper: capital has not only a price but a maturity structure — and financings whose maturity does not match the ripening of the business are risky even when their interest rate looks attractive.¹⁹

Today mezzanine is again extended mostly individually — by participation companies, debt funds, and the regional Mittelstand participation companies — and regularly gains importance where banks retreat. For corporate leadership the test question remains the same: does the business plan carry the total burden of coupon, capitalised interest under equation (2), and repayment — even in a weak year? If yes, mezzanine is the most elegant bridge between credit and equity; if no, it is the most expensive way to postpone an equity decision.

4.4 Mezzanine through the Balance Sheet Lens: Rating and Credit Headroom

The real lever of mezzanine capital often lies not in the instrument itself but in its effect on the remaining credit envelope. Banks and rating methodologies read subordinated, long-dated capital with deferrable compensation wholly or partly as economic equity: it improves the equity ratio and leverage metrics and thereby widens the room for senior, cheap credit. Ten million euros of mezzanine can thus carry fifteen or twenty million of additional bank credit — the multiplier effect that justifies the high coupon of the intermediate floor in business terms. The blended calculation is what counts: not the mezzanine coupon is the relevant quantity, but the weighted capital cost of the entire financing package.²⁰

The same lens explains the limits: where the design comes too close to debt — short maturity, hard payment obligations, call rights —, lenders refuse the equity credit, and the instrument costs high interest without lever effect. Structuring mezzanine is therefore no form-filling but a negotiation on three fronts at once: with the mezzanine provider over the terms, with the house bank over the recognition, and with one's own business plan over the carrying capacity.

¹⁹ Between 2004 and 2007, standardised mezzanine programmes worth several billion euros were securitised in Germany and placed with capital market investors; the refinancing wave from 2011 overwhelmed part of the borrowers.

²⁰ Rating agencies and banks assign hybrid instruments an equity credit of typically 0, 50, or 100 percent depending on design; decisive are subordination, maturity, and the deferability of the compensation.

5 Management Buy-outs: the Purchase from Within

5.1 Concept, Variants, and Economic Logic

In a management buy-out, the incumbent management acquires the company — wholly or by majority — from the previous owners, almost always together with a financial investor and with substantial use of debt and mezzanine capital. The typical occasions are succession without an intra-family solution, group divestments, and the withdrawal of old owners. The economic logic was supplied by Jensen (1986, 1989): concentrated ownership by management removes the conflict of interest between owners and managers, and debt service disciplines the use of free cash flow — the counter-model to the listed public corporation with its agency costs (Jensen and Meckling, 1976). Kaplan (1989) documented the value effects early: buy-outs of the 1980s raised operating results and firm values significantly; Kaplan and Strömberg (2009) as well as Guo, Hotchkiss, and Song (2011) confirm more moderate but positive effects for later waves.²¹

5.2 Worked Example: an MBO with a Mezzanine Tranche

A worked example makes the structure tangible. A family business with operating earnings (EBITDA) of 8 million euros is to pass to its management in the course of succession. The purchase price is agreed as a multiple of earnings according to equation (3):²²

$$EV = m \cdot EBITDA \quad (3)$$

Equation (3): The enterprise value EV results as a multiple m of sustainable EBITDA — here $6.25 \cdot 8 = 50$ million euros, a customary level for Mittelstand successions. The multiple bundles growth, risk, and market conditions into one number and is thus the capital market's counterpart to the valuation that the IPO later provides daily.

$$\text{Equity value} = EV - \text{net financial debt} \quad (4)$$

Equation (4): The value of the equity is the enterprise value less net financial debt. It links entry and exit of the example: at entry, the purchase price of 50 million euros is financed with 20 million of senior debt, 10 million of mezzanine, and 20 million of equity; at exit, equation (4) determines what remains for the owners after the capital providers are served.

Of the 20 million euros of equity, the private equity fund contributes 18 million, the four-person management 2 million — for ten percent of the shares, its entire available private

²¹ If an external management acquires, one speaks of a management buy-in (MBI); if a private equity fund finances predominantly with high debt, of a leveraged buy-out (LBO). The transitions are fluid.

²² Sweet equity denotes management's over-proportional share of the equity relative to its capital contribution; it is the central incentive mechanism of the buy-out.

wealth: the incentive bond that carries the buy-out. After five years, EBITDA has grown to 10 million euros, the business is sold on at 7.5 times (EV 75 million), the senior debt has been repaid down to 5 million, and the mezzanine has grown to 12.76 million under equation (2). Under equation (4), 57.2 million euros of equity value remain. The return of the participants is measured by equation (5):

5.3 Outcome, Incentives, and the Bridge to the Exchange

Equation (5) defines the internal rate of return on the capital deployed:²³

$$IRR = (V_T / V_0)^{1/T} - 1 \quad (5)$$

Equation (5): The equity return of the buy-out is the annual rate at which the stake V_0 grows to the terminal value V_T . In the example, fund and management alike earn 2.86 times their stake, about 23 percent per year over five years — management turns 2 million into 5.7 million euros. Table 4 sets entry against exit, and Figure 2 shows the capital structure.

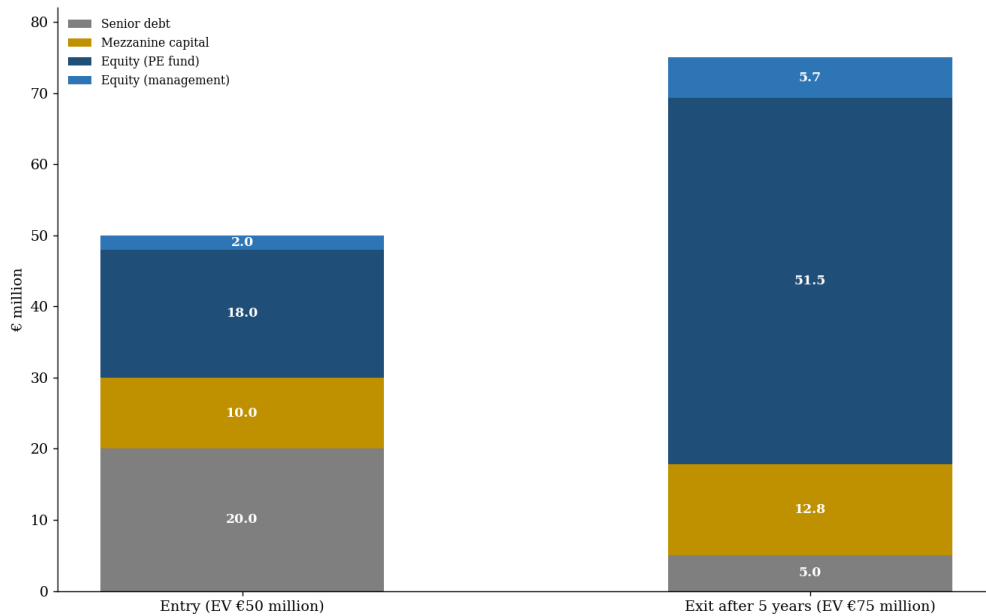


Figure 2: Capital structure of the MBO worked example at entry and at sale after five years; the value gain accrues to the equity holders after debt and mezzanine are served.
Source: own calculation.

²³ The return to the exchange after a buy-out is called a reverse LBO; Muscarella and Vetsuypens (1990) document marked efficiency gains between buy-out and re-listing.

Table 4: MBO worked example: capital structure at entry and at sale after five years (amounts in millions of euros)

Position	Entry	Sale (year 5)	Multiple	Return p.a.
Enterprise value (EV)	50.0	75.0	—	—
Senior debt	20.0	5.0 (residual)	—	6 % interest
Mezzanine (7 % coupon + 5 % PIK)	10.0	12.8 (repayment)	—	ca. 12 %
Equity, PE fund	18.0	51.5	2.9x	23.4 %
Equity, management	2.0	5.7	2.9x	23.4 %

Source: own calculation based on equations (2) to (5); simplified, without interim distributions and transaction costs.

Table 4 and Figure 2 show the distribution logic of the lever from equation (1): the enterprise value grows by 50 percent, the equity value by 186 percent, because debt and mezzanine providers receive only their fixed compensation. For the question of this paper, the buy-out matters twice over. It is, first, the private alternative to the IPO in succession and ownership change — faster, more discreet, without disclosure. And it is, second, frequently its precursor: the financial investor needs an exit after five to seven years, and the richest one is often the flotation — the reverse LBO, which closes the circle to the subject of the following sections (Kaplan, 1991; Muscarella and Vetsuypens, 1990).

5.4 Succession Practice: Owner Buy-out, Vendor Loan, and Earn-out

Practice has refined the buy-out for succession. In an owner buy-out, the old owner does not sell everything: he realises the bulk of his wealth but stays aboard with a re-investment of about 20 to 40 percent — for the acquirer a signal of confidence, for the seller a second harvest at the later full sale. The vendor loan from Table 3 bridges price gaps and ties the seller to the success of the handover; the earn-out makes part of the price contingent on future results and closes valuation gaps between the expectations of both sides. All three instruments solve the same basic problem: the value of a Mittelstand company hangs on the knowledge and relationships of the old owner, and the transition therefore needs bridges rather than cut-off dates.²⁴

For the IPO question of this paper, succession practice is an important comparison case: it shows that owner liquidity — one of the four IPO motives of Section 8 — can also be produced privately, discreetly and made to measure. The difference lies in pricing and repeatability: the private sale achieves a negotiated price with an illiquidity discount from one buyer; the exchange achieves a competitive price and lets the seller exit in doses and repeatedly. Officer (2007) puts the discount of unlisted companies in sales at 15 to 30 percent against comparable listed targets — the order of magnitude of what transferability is worth.

²⁴ In an owner buy-out (OBO), the owner sells to an acquisition vehicle held jointly with an investor and stays re-invested — he realises wealth while retaining entrepreneurial influence.

5.5 The Buy-out from the Group's Perspective: Carve-outs

The counterparty of many buy-outs is a group that is focusing: in a carve-out, a division is cut out and sold to a financial investor — often together with the divisional management. For the management this is the chance to move from group logic into entrepreneurial responsibility; for the investor, the opportunity to unleash a business under-managed under group conditions. The success statistics of buy-out research draw to a considerable extent on exactly these cases: independence releases energy that was bound up in the group by allocations, committees, and competing priorities (Kaplan and Strömberg, 2009).²⁵

The carve-out is at the same time the private sister of the spin-off that Section 11.4 describes as an IPO archetype — the same entrepreneurial operation with a different buyer: there the capital market, here the fund. Which route the group chooses is decided by market window, valuation, and discretion — and not rarely both routes run in parallel until shortly before closing (dual track). For the divisional management, looking at both scenarios early pays: its role, its stake, and its degrees of freedom differ considerably between fund and free float.

6 From GmbH to AG: the Conversion as a Turning Point

6.1 Why the AG: Capital Constitution and Transferable Shares

The transition from GmbH to AG is the logical — and legally mandatory — intermediate step on the way to the exchange, for only shares are listable. Yet the conversion is more than a formality: it exchanges the company's basic order. The GmbH is built around its shareholders — they know one another, direct the management by instruction, and control every transfer of shares. The AG is built around its capital: shares travel freely, the owners are interchangeable and unknown to each other, and precisely for that reason its constitution must be standardised, mandatory, and designed to protect the anonymous investor. The resolution to convert concerns not the legal form as such but the relationship between company and owners.²⁶

Economically, the conversion buys one thing above all: transferability of the shares. The share reduces the transaction costs of ownership change from notarised individual negotiation to zero and thereby enables three things denied to the GmbH: admitting many owners in one step (the issue), the continuous valuation of the company through trading, and the use of own shares as currency for acquisitions and employee ownership. These advantages unfold fully only with the listing — but they begin to work beforehand, for

²⁵ In a carve-out, disentangling the interwoven functions (IT, accounting, brands, contracts) is frequently more demanding than the financing; transitional service agreements with the former group bridge the first years.

²⁶ The conversion under the Transformation Act preserves the identity of the legal entity: contracts, permits, and employment relationships continue unchanged; the legal garment changes, not the company.

instance when an unlisted AG issues employee shares or admits an anchor investor through a capital increase.

6.2 The Governance Leap: Instruction Rights, Mandatory Articles, Codetermination

The deepest cut of the conversion concerns the owners' say. In the GmbH, the shareholders' meeting is the supreme organ: it can issue any individual instruction to the management — from an investment freeze to a personnel decision. In the AG this instruction right is abolished: the management board leads the company on its own responsibility, the general meeting decides only the fundamental matters named in the statute, and even the supervisory board may not instruct the management board, only appoint, oversee, and dismiss it. For a sole owner who has steered his company directly for decades, this is the true cultural rupture of the exchange road — and it occurs with the conversion, not only with the listing. Added to this is the strictness of the articles: while the GmbH contract is almost freely designable, the AG's articles may deviate from the Stock Corporation Act only where it expressly permits.²⁷

The second cut is codetermination. In Germany, employees delegate one third of the supervisory board from 500 employees and half from 2,000; in Austria, one-third participation applies throughout. For growing family businesses these thresholds often weigh heavier than all capital market duties — and they explain part of the choice of vehicle: the SE freezes the codetermination status of the conversion date, and the KGaA limits the influence of the codetermined supervisory board to oversight, because management lies with the general partner. Table 5 sets the orders of GmbH and AG side by side.

²⁷ In Austria, a supervisory board is mandatory for a GmbH only from 300 employees, for an AG always; employees there delegate one member for every two shareholder representatives under the one-third principle.

Table 5: GmbH and AG compared: what changes with the conversion

Feature	GmbH	AG
Supreme organ	shareholders' meeting with instruction rights	general meeting without instruction rights; management board leads autonomously
Freedom of design	far-reaching contractual freedom	mandatory articles: deviation only where legally permitted
Share transfer	notarisation, often consent clauses	form-free, exchange-ready
Supervisory board	mandatory only above thresholds	always mandatory, codetermined by size
Minimum capital	€25,000 (DE) / €10,000 (AT)	€50,000 (DE) / €70,000 (AT)
Capital raising	negotiated individual participations	capital increases, authorised and conditional capital, public issues
Disclosure	financial statements by size class	extended; with listing additionally capital market disclosure

Source: own compilation based on data from the GmbHG and AktG (Austria and Germany), simplified.

6.3 The Conversion in Practice and the Choice of Vehicle

In practice, the road from GmbH to AG takes the form of an identity-preserving conversion under the Transformation Act: conversion report, qualified shareholder resolution, appointment of supervisory and management boards, formation audit, registration. The time needed is measured in months; the real effort lies in what must grow along with the legal garment — accounting at group and, where applicable, IFRS level, internal controls, reporting lines, a capital-market-ready leadership structure. Wise companies therefore convert years before the planned IPO: the AG becomes exchange-ready in daily operation, not at the notary's desk.²⁸

The choice of vehicle — AG, KGaA, or SE — follows the owners' priorities. The plain AG is the standard and is best understood by the capital market. The KGaA recommends itself where a family wants to secure leadership permanently and accepts a valuation discount for it; the SE where international structure or codetermination thresholds come first. All three are listable, and all three are represented at the exchanges of the German-speaking region in prominent examples — the decision is one about control and governance, not about listability itself.

6.4 The Advisory Board as Preparatory School for the Supervisory Board

Between the owner-run GmbH and the AG with its mandatory supervisory board lies a proven intermediate instrument: the voluntary advisory board. Well staffed — with experienced entrepreneurs, industry experts, and a finance specialist — it delivers much of

²⁸ Proven practice is a lead time of two to three years between conversion and first listing, so that audited accounts, functioning organs, and capital-market-ready reporting exist by the IPO date.

what the supervisory board must later deliver: it forces management to account regularly in structured form, professionalises planning and reporting, defuses shareholder conflicts as a neutral instance, and opens networks to customers, capital providers, and candidates. External capital providers — from the mezzanine lender of Section 4 to the private equity investor of Section 5 — regularly demand such a body as a condition of entry.²⁹

On the way to the exchange, the advisory board is the ideal preparatory school: staffing an advisory board with future supervisory board candidates three years before the planned IPO practises the triad of report, meeting, and resolution under a mild regime before the mandatory articles and liability of stock corporation law apply. The transition from advisory to supervisory board then becomes a formality — and the organs of the new AG already know the company when the bank selection of Section 7 begins.

6.5 Shareholder Agreements: How Contracts Prefigure the IPO Road

Long before articles and stock corporation law govern, shareholder agreements regulate the coexistence of the capital providers — and they often prefigure the IPO road years in advance. Venture and private equity contracts regularly contain exit clauses: drag-along and tag-along rights order the joint sale, registration rights secure the investors' participation in a future exchange placement, and IPO clauses define from which valuation and date a flotation can be demanded or preference rights convert into ordinary shares. Signing such contracts partly determines the IPO decision already — a point seldom fully appreciated by founders at the entry of the first fund.³⁰

Before the IPO these webs must be dissolved: the capital market demands one share, one shareholder status, one rulebook. Preference structures are converted, special rights terminated, old shareholder agreements replaced by lean lock-up and voting arrangements that the prospectus discloses. This clean-up is legal craftsmanship with an economic core: every surviving special right is a valuation discount, for the anonymous investor buys no share beside which a better contract exists.

7 The Road to the Exchange: Process, Actors, and Market Segments

7.1 Prerequisites and Bank Selection

The IPO begins long before the first press release. At the start stands the equity story: the convincing answer to the question why strangers should entrust equity to precisely this

²⁹ Unlike the supervisory board, the advisory board is barely regulated by statute; composition, powers, and compensation are set freely by the shareholders in the articles or in advisory board rules.

³⁰ Drag-along obliges minorities to join a majority sale; tag-along entitles them to sell on the same terms; registration rights give investors the right to demand inclusion of their shares in an exchange placement.

company — market position, growth path, use of funds. Then come the hard prerequisites: audited accounts for the past three financial years, an accounting function that reports group-ready by quarter, a second management tier that relieves the board in daily business, and the legal form described in Section 6. On this basis the issuing banks are mandated — usually a syndicate of one or two global coordinators and further institutions, selected in the so-called beauty contest by sector knowledge, placement power, and research coverage.³¹

7.2 Prospectus, Bookbuilding, and Price Discovery

The legal centrepiece is the securities prospectus under the European Prospectus Regulation: the approved, liability-backed complete account of business, numbers, and risks, prepared in months of due diligence by banks, lawyers, and auditors. In parallel the valuation takes shape: research analysts of the syndicate banks educate institutional investors (pilot fishing, pre-marketing), and from their feedback the price range is derived. Allocation today follows almost exclusively the bookbuilding method: investors submit price-limited orders, and the banks set the offer price where the book is covered several times over. Benveniste and Spindt (1989) showed why this procedure beats the rigid fixed price: it rewards investors through allocation for revealing their true willingness to pay — part of the underpricing that Section 9 quantifies is the price of this information gathering.³²

Roadshow and first listing conclude the process: one to two weeks of investor meetings, pricing, allocation, first trading day. The greenshoe lets the banks smooth price swings in the first thirty days; lock-up agreements of usually six to twelve months bind old shareholders and management so that the young market is not immediately confronted with insider sales. Figure 3 orders the steps on the timeline.

³¹ In the beauty contest, competing banks present valuation, placement concept, and terms; the valuations presented are, in experience, more advertising than forecast and should be read accordingly critically.

³² The greenshoe (named after the manufacturer at whose IPO it was first used) is an over-allotment option of usually up to 15 percent of the issue for price stabilisation in the first weeks.

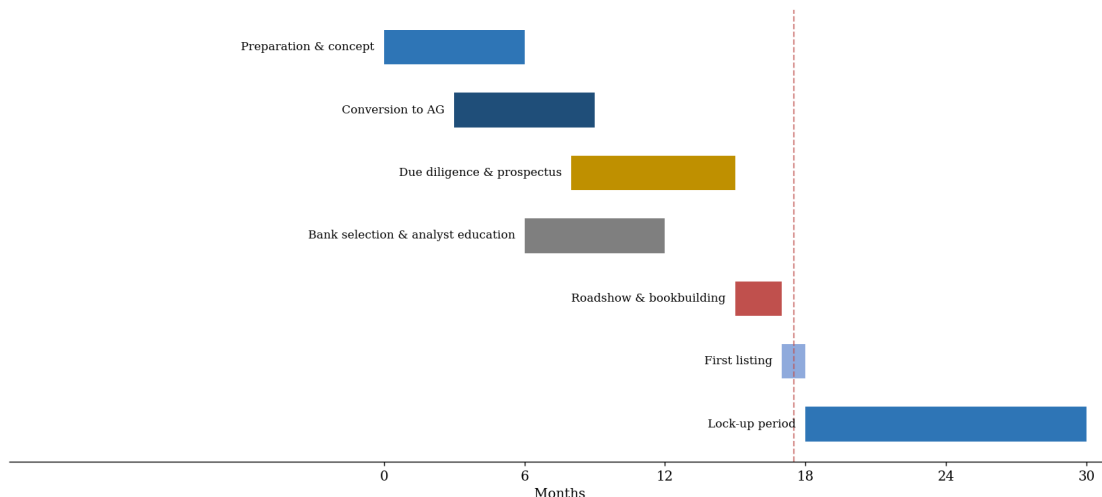


Figure 3: Typical timeline of an IPO from preparation to the end of the lock-up period (schematic; dashed line: first trading day).

Source: own illustration.

The timeline in Figure 3 shows what corporate leaders often underestimate: from serious project start to first listing, 12 to 18 months typically pass — with the preparatory work of Section 6, more like two to three years. The process absorbs board and finance function to a degree that competes with daily business — one reason badly timed IPOs cost twice: in the capital market and in the operating result.

7.3 Market Segments in Vienna and Frankfurt

The issuer chooses not only the exchange but the segment — and with it its level of obligations. At the Frankfurt Stock Exchange, the regulated market with the Prime Standard (highest transparency: IFRS, quarterly reporting, English-language disclosure, analyst conferences) and the General Standard stand beside the exchange-regulated segment Scale for smaller growth companies. The Vienna Stock Exchange mirrors this grading with the prime market, the standard market, and the entry segment direct market plus. Segment choice is signalling policy: only the Prime Standard and prime market open the selection indices — the ATX in Vienna, the DAX family in Frankfurt — whose membership brings index funds as buyers and structurally raises liquidity. Table 6 compares the requirements.³³

³³ With the EU Listing Act, access rules were recently eased; among other things, the minimum free float in the Vienna prime market was lowered from 25 to 10 percent.

Table 6: Market segments in Frankfurt and Vienna: key requirements (simplified)

Feature	prime market (Vienna)	Prime Standard (Frankfurt)	Scale (Frankfurt)
Legal basis	regulated market (EU-regulated)	regulated market (EU-regulated)	open market (exchange-regulated)
Minimum free float	10 %	25 %	20 % or 1 million shares
Accounting	IFRS	IFRS	HGB or IFRS
Interim reports	quarterly	quarterly	half-yearly
Prospectus	EU prospectus	EU prospectus	inclusion document / prospectus
Index eligibility	ATX	DAX, MDAX, SDAX	Scale All Share
Typical issuers	from ca. €100m market capitalisation	from ca. €200m market capitalisation	smaller growth companies

Sources: own compilation after the rulebooks of Deutsche Börse AG and Wiener Börse AG, as of mid-2026, simplified.

The segment choice of Table 6 should be determined by the target investor: addressing international institutions requires Prime Standard or prime market with an index perspective; for a regional growth company with a 30 million euro issue, Scale can be the more honest place — lighter duties, but also less visibility and liquidity. A later upgrade is possible and common; the reverse move is read by the market as a warning signal.

7.4 Alternative Routes to the Floor: Direct Listing, SPAC, Dual Listing

The bookbuilding IPO of Section 7.2 is the standard route, but not the only one. In a direct listing, existing shares are admitted to trading without an issue and without an underwriting syndicate — no fresh capital, no underpricing, lower costs; suitable for well-known companies with a broad base of old shareholders who seek tradability only. In a SPAC (special purpose acquisition company), the company merges with an already listed empty shell and inherits its listing — faster than an IPO and with a negotiated rather than market-set valuation, but with substantial structural costs: Gahng, Ritter, and Zhang (2023) show that founder shares and redemption rights drive effective dilution far above that of a classic IPO. The wave of 2020/21 has ebbed accordingly.³⁴

The dual or secondary listing, finally, adds a further venue to an existing listing — today mostly European companies listing additionally or exclusively in New York, where valuations and liquidity are higher for certain sectors. For the Mittelstand of the German-speaking region, these alternatives are rarely the answer: the direct listing presupposes a fame that only the capital market creates, the SPAC is dearer than it looks, and the US listing pays only from a size that carries the costs of double regulation. The classic IPO in

³⁴ Gahng, Ritter, and Zhang (2023) take stock of the 2020/21 SPAC wave: heavy dilution through founder shares and redemption rights, and on average strongly negative returns to SPAC shareholders after the merger.

the home market remains the reference route for the audience of this paper — the alternatives are nonetheless useful as negotiating leverage with the banks.

7.5 The Banks in Detail: Syndicate, Research, and Conflicts of Interest

The issuing syndicate is built on division of labour: the global coordinators steer process, valuation, and order book, while the further banks (bookrunners, co-managers) contribute placement power in particular investor groups and regions, and research coverage after the listing. For the issuer, the composition is an optimisation under conflicting goals: more banks mean more distribution channels and more future analyst voices, but also diluted responsibility and higher coordination costs. The syndicate agreement governs fee splits, liability, and — increasingly important — the incentive fee with which the issuer can reward good execution after the fact.³⁵

The banks' double role demands vigilance. They advise the issuer and serve at the same time their investor clients, who appreciate low prices and generous allocations; Loughran and Ritter (2002) also see in underpricing a currency with which banks reward their best clients. Syndicate research, in turn, is structurally biased (Michaely and Womack, 1999) — valuable for visibility, but no substitute for independent voices. The professional issuer counters with valuation competence of his own, an independent IPO adviser on his side of the table, and contractual access to the order book: direct sight of the demand permits negotiating the offer price on equal terms.

7.6 A Look inside the Prospectus: Risk Factors and Use of Proceeds

Two prospectus chapters deserve the particular attention of corporate leadership because they work beyond the issue. The risk factors are the issuer's liability armour — what stands there, no investor can later claim was concealed — and at the same time its public vulnerability analysis: competitors, customers, and journalists read this chapter first. The art lies in specificity: honest enough for liability, precise enough not to hand over trade secrets. The use of proceeds, in turn, is the public promise of what the fresh capital will be used for — growth, acquisitions, debt repayment — and the capital market remembers: promising growth while repaying debt damages credibility for the next capital measure.³⁶

The prospectus thus disciplines before the listing exactly as continuous disclosure does afterwards: it forces the company to formulate strategy, risks, and capital needs with a precision that internal papers rarely reach. Many issuers report in retrospect that the

³⁵ Michaely and Womack (1999) show that buy recommendations by analysts of the syndicate banks perform systematically worse after the IPO than those of independent houses — the conflict of interest is measurable.

³⁶ The Prospectus Regulation requires risk factors to be ranked by materiality and drafted specifically; boilerplate clauses without informational content have become inadmissible.

greatest value of the prospectus process was not the document but the enforced clarity — a benefit that remains even if the market window closes and the IPO is postponed.

7.7 The Zurich Exchange: SIX Swiss Exchange and Sparks

SIX Swiss Exchange in Zurich ranks among the largest exchanges in Europe and adds the third listing venue of the German-speaking region to the Frankfurt and Vienna segments described in Section 7.3. For a listing under the Equity Standard, the listing rules require a track record of three financial years, reported equity capital of at least 2.5 million Swiss francs, and a free float of at least 20 per cent with a free-float capitalisation of at least 25 million Swiss francs.

With Sparks, SIX has operated a dedicated segment for small and medium-sized enterprises with a market capitalisation below 500 million Swiss francs since October 2021: the required track record shortens to two years and the free float to above 15 per cent, or a free-float capitalisation of at least 15 million Swiss francs. BX Swiss provides a second, smaller listing venue in Zurich. The choice among Frankfurt, Vienna, and Zurich follows the same criteria as the dual-listing decision (Section 7.4): visibility with the relevant investor base, the analysts' peer group, and trading liquidity.

The Swiss underpricing evidence confirms the international finding developed in Section 9.2: Kunz and Aggarwal (1994) measure average initial returns of roughly 36 per cent for Swiss IPOs between 1983 and 1989, and Drobetz, Kammermann, and Wälchli (2005) confirm initial returns of almost 35 per cent for 1983 to 2000 — the most expensive discount in corporate finance is thus no peculiarity of the large markets.

8 The Economics of Going Public I: Motives and Benefits

8.1 What Research Knows about the Motives

Why do companies go public? The empirical answer is more sobering than prospectus prose. Pagano, Panetta, and Zingales (1998) show for Italy that the IPO typically does not stand at the start of an investment wave but follows phases of high growth and high valuations; after the IPO, investment and leverage fall, and the old owners frequently sell shares — the motive is often balance sheet strengthening and owner wealth diversification, not the financing of the next plant. Zingales (1995) supplies the matching theory: for an incumbent owner, going public is the way to maximise the value of his company in two steps — first create a free float and sell the cash-flow claim dearly, then sell control separately if desired. Brau and Fawcett (2006), finally, asked 336 US chief financial officers directly: they named the creation of an acquisition currency as the most important motive,

followed by the establishment of a market price; and disclosure and reporting duties as the most important deterrent.³⁷

The motives can be bundled into four benefit channels that will be examined individually below: capital access (equity at scale, repeatable through follow-on offerings), currency (shares as payment for takeovers and employee ownership), valuation and reputation (a daily market price, analyst coverage, visibility with customers and talent; Röell, 1996), and owner liquidity (diversification and orderly generational transfer). Against them stand the cost channels of Section 9 — the balance of the two decides the question of this paper.

Theory and European evidence round off the picture. Chemmanur and Fulghieri (1999) model the going-public decision as a trade-off between the expensive but negotiation-strong private financier and the many small investors of the capital market, who spread valuation risks but demand information costs — young, hard-to-value companies rationally stay private, mature ones list. Rydqvist and Högholm (1995) confirm for Europe what Pagano, Panetta, and Zingales found for Italy: European IPO firms are older and more mature than American ones, and ownership change stands in the foreground more often than growth financing. Mikkelson, Partch, and Shah (1997) add the most sobering number of the literature: operating profitability declines after the IPO on average — not because the exchange harms, but because issuers rightly choose the peak of their earning power as the moment to sell; Ritter and Welch (2002) survey the full evidence.

8.2 Worked Example: an IPO of 160 Million Euros

A worked example connects the components. The family AG from the development path of Sections 2 to 6 — 20 million shares, wholly in family hands — goes public. The issue combines a capital increase of 5 million new shares with the secondary placement of 3 million family shares; bookbuilding in the 18-to-22-euro range ends at an offer price of 20 euros. Equations (6) to (9) deliver the key figures of the transaction:³⁸

$$E = n_{new} \cdot P_0 \quad (6)$$

Equation (6): The company's gross issue proceeds are the number of new shares times the offer price — here $5,000,000 \cdot 20 = 100$ million euros of fresh equity. The secondary placement raises a further 60 million euros, which flow not to the company but to the selling old shareholders.

$$MC = N \cdot P_0 \quad (7)$$

³⁷ Pagano, Panetta, and Zingales (1998) could, thanks to the reporting data of the Italian central bank, compare IPO firms with comparable companies that stayed private for the first time — a data access rare to this day.

³⁸ The split into capital increase (primary tranche, proceeds to the company) and secondary placement (proceeds to the selling old shareholders) matters for capital market communication: a high secondary share is read as an exit signal.

Equation (7): The market capitalisation at the offer price is the total number of shares after the capital increase ($N = 25$ million) times the price — 500 million euros. It is the company's first public overall valuation and the reference point for everything that follows.

$$f = (n_{new} + n_{sec}) / N \quad (8)$$

Equation (8): The free float is the share of freely tradable stock — here $(5 + 3) / 25 = 32$ percent, comfortably above the minimum requirements of Table 6 and large enough for index eligibility and liquid trading.

$$\alpha_{fam} = (n_{old} - n_{sec}) / N \quad (9)$$

Equation (9): The family's stake after the IPO is $(20 - 3) / 25 = 68$ percent — control remains unchallenged, for every general meeting resolution up to changes of the articles can be passed with this majority. Figure 4 shows the shift, Table 7 the complete arithmetic.

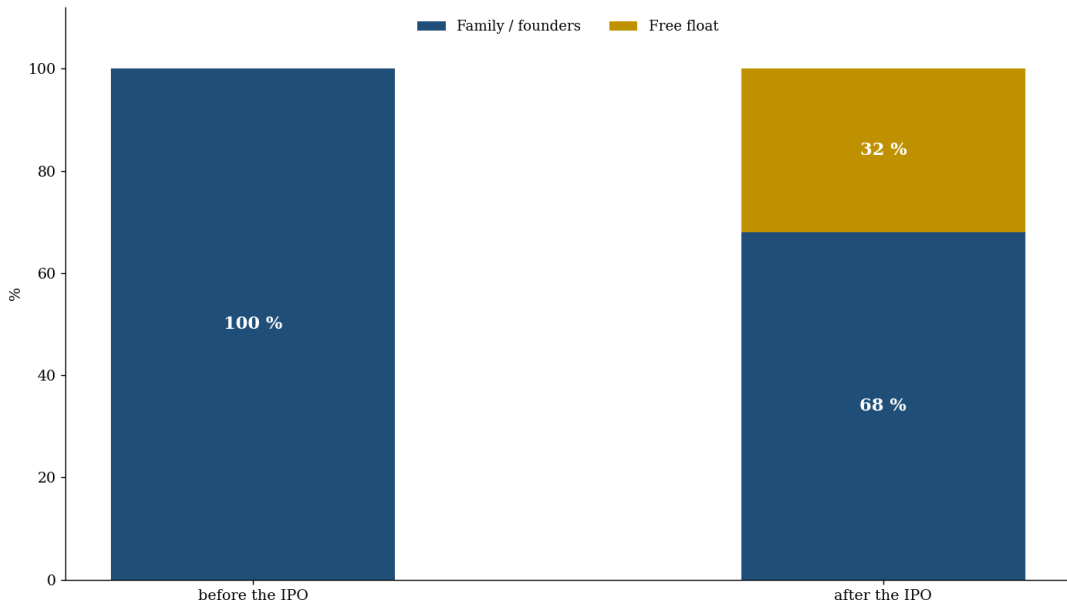


Figure 4: Ownership structure of the IPO worked example before and after the flotation: the family retains 68 percent, 32 percent become free float.

Source: own calculation.

Table 7: IPO worked example: key figures of the transaction (offer price 20 euros, first market price 23 euros)

Item	Value	Recipient / meaning
Capital increase (primary)	5.0m shares	proceeds of €100m to the company
Secondary placement	3.0m shares	proceeds of €60m to the family
Total placement volume	€160m	8 million shares at €20
Market capitalisation (offer price)	€500m	25 million shares at €20
Free float	32 %	index-eligible, liquid
Family stake after IPO	68 %	control secured
Direct costs	€8.0m (5.0 %)	banks €4.8m, advisers/exchange €3.2m
Underpricing (day 1: +15 %)	€24.0m	first-day gain of the initial investors

Source: own calculation based on equations (6) to (12); rounded.

The family's wealth balance reveals the character of the deal. Before the IPO it held 100 percent of a company that the market (at the offer price) would have valued at 400 million euros — illiquid, indivisible, unpledgeable. After the IPO it holds 68 percent worth 391 million euros at the first market price, plus 60 million euros in cash, together more than 450 million euros — and for the first time in a form that is divisible, pledgeable, and valued daily. The gain is no gift of the market but the liquidity premium of transferable shares (Amihud and Mendelson, 1986) — the core of what owners gain by going public.

8.3 The Follow-on Benefits: Currency, Subsequent Offerings, Visibility

The issue proceeds are only the first benefit; the durable advantages begin after the first listing. The listed share is acquisition currency: takeovers can be paid wholly or partly in own shares, decoupling buying power from the cash balance — the motive most frequently named by the CFOs in Brau and Fawcett (2006). Capital market access is repeatable: follow-on offerings (SEOs) and convertible bonds raise further equity at marginal costs far below those of the first flotation. The daily valuation both disciplines and informs: Holmström and Tirole (1993) show that the share price measures management performance as no internal report can — the precondition of effective share-based pay. And visibility works beyond the capital market: on customers, suppliers, banks, and applicants, for whom the listing is a daily renewed seal of quality.³⁹

8.4 Valuation Levels: Private versus Listed

The valuation gap between private and public ownership can be quantified, and it is large. Officer (2007) compares acquisitions of unlisted and listed companies of the same industry and size: private targets sell at discounts of 15 to 30 percent on comparable multiples — the price of illiquidity, information risk, and a narrow buyer base. The liquidity premium

³⁹ Employee shares and stock option programmes are only partly feasible in unlisted companies for lack of a market price and saleability; listing is what makes ownership liquid as a component of pay.

of listing (Amihud and Mendelson, 1986) is the mirror image of this discount: transferable, daily valued shares are worth more per euro of earnings than tied-up ones. For the family of the worked example this means: part of the wealth gain at the IPO is not a revaluation of the business but the monetisation of tradability itself.⁴⁰

Honesty requires the counter-entry: the valuation premium of the exchange is conditional. It presupposes liquidity, analyst coverage, and index eligibility — the forgotten small cap with two percent of its float trading earns no premium but quotes at a conglomerate discount without an audience. The premium is thus no gift of listing but the wage of a functioning capital market presence — a further argument for measuring the IPO against the size thresholds of Table 9 rather than against what is legally possible.

8.5 Employee Ownership: the Share as a Personnel Instrument

One benefit channel of the IPO deserves separate treatment because it has become strategic amid the skills shortage: employee ownership. Only the listed share makes employee share and option programmes fully functional — with a daily price, saleability at any time, and none of the valuation disputes of virtual programmes. Kim and Ouimet (2014) show that broad-based employee ownership programmes of moderate size measurably raise productivity and wages; for growth companies, share-based pay is moreover a liquidity instrument — it pays talent with future instead of cash. The technology sector shows the orders of magnitude: without a tradable share, a Mittelstand company competes for top talent on salary alone.⁴¹

The other side belongs in the picture: share programmes dilute the old shareholders, their costs hit the income statement, and badly calibrated option plans set the wrong incentives — short-term price grooming instead of long-term value creation. Institutional investors and proxy advisers scrutinise pay systems accordingly strictly. As practical guidelines, annual dilution budgets of one to two percent of share capital apply, with hurdles that reward relative rather than absolute price performance.

⁴⁰ Kadlec and McConnell (1994) show the mirror effect for exchange listings of established companies: admission to more liquid trading measurably raises valuation and the shareholder base.

⁴¹ Before listing, companies make do with virtual participations (VSOP) or — in Austria since 2024 — the FlexCo's enterprise value shares; both pay only upon exit and replace the tradable share imperfectly.

9 The Economics of Going Public II: Costs and Pitfalls

9.1 The Direct Costs

The IPO is the most expensive capital measure a company can undertake, and its costs come in three layers. The first is visible: the direct costs of equation (10).⁴²

$$C_{direct} = g \cdot E_{total} + F \quad (10)$$

Equation (10): The direct costs consist of the volume-based underwriting fee (gross spread g , in Europe usually 2.5 to 3.5 percent of the placement volume E_{total}) and the fixed costs F for lawyers, auditors, prospectus, and exchange. In the worked example: 3 percent of 160 million plus 3.2 million of fixed costs yields 8 million euros, or 5 percent of the volume. Because of the fixed cost block, strong economies of scale apply — for small issues the direct costs can reach double-digit percentages (Ritter, 1987).

The second layer are the running costs of the listing: quarterly and annual reporting under IFRS, the general meeting, investor relations, the ad hoc organisation, additional audit and advisory expense. For smaller issuers this typically adds up to one to several million euros per year — an amount often overlooked in the decision because it appears not in the issue statement but in every subsequent income statement.

9.2 Underpricing: the Most Expensive Discount in Corporate Finance

The third cost layer is the least visible and regularly the largest: underpricing. Since Ibbotson (1975) it has been documented that offer prices lie systematically below the first market price. Equations (11) and (12) quantify the effect:⁴³

$$UP = (P_1 - P_0) / P_0 \quad (11)$$

Equation (11): Underpricing is the first-day return — in the worked example $(23 - 20) / 20 = 15$ percent, close to the long-run averages: in the United States, the average first-day return was 7.2 percent in the 1980s, 14.8 percent in the 1990s, 64.6 percent in the 1999/2000 bubble, and about 14 percent since; for Germany the long-run values lie around 9 to 15 percent. Figure 5 shows the periods.

$$MLOT = (P_1 - P_0) \cdot n_{placed} \quad (12)$$

⁴² In the United States, the underwriting fee for mid-sized IPOs has stood remarkably rigid at 7 percent for decades (Chen and Ritter, 2000); why European issuers pay only about half is examined by Abrahamson, Jenkinson, and Jones (2011).

⁴³ The US figures follow Loughran and Ritter (2004) and the continuously updated statistics of Ritter (2024); the German long-run value follows Ljungqvist (1997).

Equation (12): The money left on the table is the first-day gain of the initial investors — 3 euros times 8 million placed shares equals 24 million euros in the example, three times all direct costs combined. Loughran and Ritter (2002) explain why old owners rarely complain: the price jump revalues their retained shares at the same time, and the joy over the wealth gain covers the forgone issue proceeds.

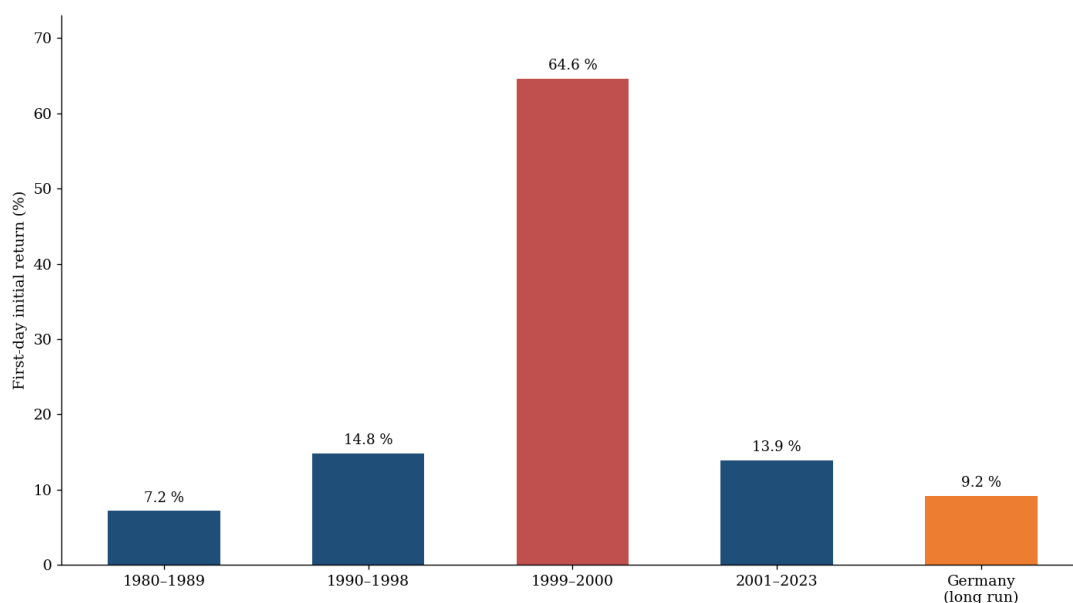


Figure 5: Average first-day returns: United States by period and the long-run value for Germany.

Source: own illustration after Loughran and Ritter (2004), Ritter (2024), and Ljungqvist (1997).

Why does this discount exist at all? The most convincing explanation is Rock's (1986) winner's curse: uninformed subscribers receive full allocation in overpriced issues and only partial allocation in attractive ones — for them to bid at all, the average issue must be underpriced. Benveniste and Spindt (1989) add the information costs of bookbuilding, Welch (1992) cascade effects among investors. For the issuer the origin is secondary; what matters is the consequence: underpricing is a calculable price component of going public, and failing to budget for it considerably understates the true costs of the transaction. Figure 6 condenses all cost layers and the scale effect.

9.3 The Total Cost Account

Figure 6 assembles the cost layers of the worked example: about 3 percent underwriting fee, 2 percent other direct costs, and 15 percent underpricing — in sum, access to public equity costs about a fifth of the placement volume in the example, once. The right panel shows the scale effect of the fixed costs: below roughly 50 million euros of issue volume, direct costs rise steeply, which explains the practical lower bound of sensible IPOs. These

numbers are no argument against going public — they are its price tag, and they belong in the same account as the benefit channels of Section 8.⁴⁴

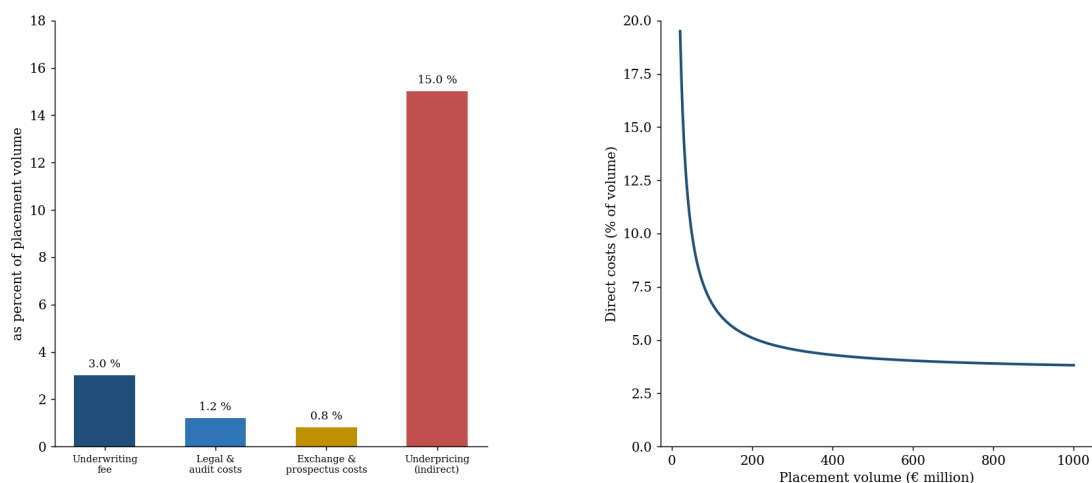


Figure 6: Cost layers of the IPO in the worked example (left) and scale effect of direct costs by issue volume (right, stylised).

Source: own calculation after Ritter (1987) and Abrahamson, Jenkinson, and Jones (2011).

9.4 Transparency, Ad Hoc Disclosure, and the Beat of the Capital Market

With the first listing, the company moves into a different information regime. The Market Abuse Regulation requires the immediate publication of any non-public information that could significantly move the price — the lost major contract, the profit warning, the board departure: all ad hoc, unvarnished, and before the competitor reads it in the paper. Added to this are insider lists, managers' transaction reports (directors' dealings), shareholders' voting rights notifications, and the periodic reporting of the chosen segment. Table 8 organises the main duties. For corporate culture this is the deepest cut of going public: the discretion of the family business — about margins, distributions, internal conflicts — ends on the day of listing; the competitor, too, reads quarterly reports, prospectus, and ad hoc notices from then on.⁴⁵

⁴⁴ The cost figures in Figure 6 are stylised averages; in the individual case they vary considerably with issue size, segment, and market phase.

⁴⁵ A delay of ad hoc disclosure is permissible only under narrow conditions (legitimate interest, no misleading of the public, confidentiality ensured) and must be documented.

Table 8: Ongoing capital market duties of listed companies (regulated market, simplified)

Duty	Legal basis	Content and deadline
Ad hoc disclosure	Art. 17 MAR	immediate publication of price-relevant inside information
Directors' dealings	Art. 19 MAR	reporting of managers' own transactions within three business days
Insider lists	Art. 18 MAR	continuous maintenance, production on demand of the supervisor
Voting rights notifications	WpHG / BörseG	notification at thresholds (from 3 % and 4 % respectively)
Periodic reporting	Transparency Directive, exchange rules	annual, half-year, and in the prime segments quarterly reports (IFRS)
General meeting	AktG	annual; convocation, counter-motions, shareholders' information rights
Takeover law	WpÜG / ÜbG	mandatory offer upon acquisition of control (30 percent of voting rights)

Sources: own compilation after MAR, WpHG, BörseG, WpÜG, and ÜbG, as of mid-2026, simplified.

To transparency is added the beat. Graham, Harvey, and Rajgopal (2005) surveyed CFOs anonymously: a majority would sacrifice value-creating projects to hit the current quarter's earnings expectation — the quarterly pressure of the capital market is no anecdote but measurable behavioural change. Before going public, the strategy should be tested for compatibility with quarterly reporting: business models with long investment cycles and volatile order intake pay a restlessness surcharge in the capital market.

9.5 Price Disappointments and the Long Run

The most painful lesson of listed life is the asymmetry of disappointment. Skinner (1994) shows that companies accelerate the disclosure of bad news — litigation risk and the ad hoc duty leave no choice —, and Skinner and Sloan (2002) quantify the consequence: if a richly valued growth stock misses the earnings expectation even slightly, the price falls disproportionately, because growth premiums lever in both directions. The board of a listed company therefore always manages, besides the business, an expectations account: setting guidance, monitoring consensus estimates, avoiding disappointments in measured doses — a discipline that simply does not exist in the family business.⁴⁶

The long run, too, counsels sobriety. Ritter (1991) and Loughran and Ritter (1995) document that new issues underperform the market clearly over the following three to five years — issuers successfully exploit phases of high valuations (Baker and Wurgler, 2002; Pástor and Veronesi, 2005), and the initial investors pay for this with meagre subsequent returns. Brav and Gompers (1997) differentiate: the effect concentrates in small issues without professional early investors. For the issuer this means two things: a good market window improves the issue proceeds substantially — and a disappointed initial investor

⁴⁶ Skinner and Sloan (2002) call the effect the earnings torpedo: for growth stocks a small negative surprise suffices for double-digit price losses, because the high valuation premium falls together with the earnings estimate.

will not soon return; using the exchange as a permanent capital source requires selling at the IPO a valuation that can subsequently be confirmed.

9.6 Liability and Organ Duties: the Personal Risk of the Leadership

Going public also changes the personal risk profile of the people acting. The prospectus creates liability for incorrect or incomplete statements — it hits the issuer and the accompanying banks and can reach through to the responsible organs; the due diligence of Section 7.2 is therefore not formality but liability protection. After the listing the risks continue: faulty or late ad hoc notices, incorrect financial reports, and insider law violations found claims of damaged investors and supervisory fines; model case proceedings bundle such claims into litigation whose amounts can exceed a Mittelstand balance sheet. Management and supervisory board members of listed companies without adequate D&O insurance and without a robust compliance organisation act negligently — in the literal sense.⁴⁷

These risks are manageable, but they cost structure: an ad hoc committee with clear escalation paths, trained executives, clean insider lists, documented decision processes. The Mittelstand owner who perceives such structures as bureaucratic impositions should read this as an honest signal — not against the structures, but against his own IPO at the present time. The organisation must run ahead of the listing, not grow after it.

9.7 The Risk of Being Forgotten: Analyst Coverage and Liquidity

An underestimated pitfall concerns not the IPO but the years after: being forgotten. The capital market's attention is a scarce good — research capacity concentrates on large, liquid stocks, and a small cap without analyst coverage gradually loses exactly what it bears the costs of listing for: fair valuation, liquidity, capital market access. Kelly and Ljungqvist (2012) quantify the effect: when coverage lapses, spreads widen and prices fall — information is part of the price. The trend aggravates the problem, for shrinking bank research budgets have structurally thinned the coverage of small European stocks; many issuers today buy their coverage as commissioned research.⁴⁸

For the going-public decision, an honest self-examination follows: is the company large and narratable enough to find an audience permanently? The size thresholds of Table 9 are also attention thresholds — below them looms the fate of the forgotten small cap of Section 8.4: listed but not traded; transparent but not seen. The company then bears the full costs of publicity and reaps almost none of its rewards — the most expensive of all half-measures.

⁴⁷ Capital markets violations can trigger, besides civil liability, fines by the supervisor (BaFin, FMA) and criminal responsibility; market manipulation and insider trading are criminal offences.

⁴⁸ Kelly and Ljungqvist (2012) show causally what the loss of research coverage costs: after exogenous coverage terminations, bid-ask spreads widen and the valuations of the affected stocks fall.

10 Control and the Capital Market: Free Float, Takeovers, and Defence

10.1 Ownership under Observation

With the listing, ownership becomes public and its changes notifiable: crossing voting thresholds of 3 or 4, 5, 10, 15, 20, 25, 30, 50, or 75 percent, upward or downward, must be reported within a few trading days, and the company must publish it. For the old shareholders this means a double change of perspective. First, they see for the first time who is buying into their register — the entry of an activist fund announces itself in the notifications. Second, their own dispositions become market-relevant: if the founding family sells a block, the market reads it as a signal and the price reacts — the freedom of anonymous ownership ends with the first threshold notice. La Porta, Lopez-de-Silanes, and Shleifer (1999) and Faccio and Lang (2002) show that concentrated family ownership remains the rule even among listed companies in Europe — the exchange does not end control, but it places it under observation.⁴⁹

10.2 Free Float: Liquidity against Control

The free float of equation (8) is the central control dial between the old owners' objectives. A high free float creates liquidity, and liquidity is worth hard money: Amihud and Mendelson (1986) show that investors pay higher prices for more easily tradable stocks — tighter spreads, smaller price impact of large orders, index eligibility, and institutional investability all hang on the freely tradable share. A low free float conversely secures control and protects against unwanted buyers, but costs valuation and capital market access. The 32 percent of the worked example are a typical middle course: enough for index and trading, too little for a change of control against the family's will. Bolton and von Thadden (1998) formalised precisely this trade-off — liquidity against control — as the basic problem of the ownership structure of listed companies.⁵⁰

⁴⁹ The entry notification threshold is 3 percent of voting rights in Germany (WpHG) and 4 percent in Austria (BörseG); violations lead to a temporary loss of rights from the shares.

⁵⁰ The index families require minimum free float ratios (DAX family 10 percent) and weight members by free-float market capitalisation; a larger free float thus directly raises the index weight.

10.3 The Market for Corporate Control and the Hostile Takeover

Making shares freely tradable also makes control tradable. Manne (1965) described this market for corporate control as a disciplining mechanism: if the price falls because leadership is weak, the company becomes a target — an acquirer buys, replaces management, and lifts the value. Jensen and Ruback (1983) take stock of the evidence: takeovers create substantial value, and it flows predominantly to the target's shareholders — the takeover premium of frequently 20 to 40 percent is a gain from the free float's perspective, a threat from the administration's. Grossman and Hart (1980) show the counterforce: because small shareholders speculate on the price rise after the takeover and do not tender, hostile bids are harder and dearer than pure theory expects.⁵¹

Takeover law governs this area: reaching 30 percent of the voting rights triggers a mandatory offer to all remaining shareholders at a statutory minimum price (ÜbG in Austria, WpÜG in Germany,); defensive measures by the management board are subject to the neutrality duty and in principle require the approval of the general meeting or the supervisory board. For the family of the worked example, the message is reassuring: at 68 percent, a hostile takeover is factually impossible. It becomes critical below 50 percent, at the latest below 30 percent; dilution toward these levels through follow-on offerings and sales should be deliberate. Schwert (2000) qualifies the bogeyman at the same time: most bids that start hostile end negotiated, and Franks and Mayer (1998) show for Germany how rare open takeover battles have remained relative to the Anglo-Saxon world — precisely because of the concentrated ownership structures.

10.4 Securing Control: Anchor Stakes, KGaA, Multiple Voting Shares

Between full control and full capital market opening lies a range of gradations. The first level is arithmetic: a holding above 50 percent determines the general meeting; a holding above 25 percent blocks changes of the articles and capital measures (blocking minority). The second level is structural: the KGaA of Section 2.3 anchors management with the general partner and makes it takeover-proof — the reason family businesses like the 2025 IPO example Ottobock choose this form. The third level are multiple voting shares, which the European legislator has reopened for growth companies: founder shares with multiple votes permit capital raising with continuing control — at the price of a governance discount that institutional investors demand for the decoupling of capital and vote (Burkart, Panunzi, and Shleifer, 2003).⁵²

⁵¹ Hostile means against the will of the management, not of the shareholders — to whom the offer is precisely addressed. The takeover battle for Mannesmann by Vodafone in 1999/2000 remains the largest case of the German-speaking region.

⁵² Multiple voting shares have been permissible again in Germany since the Future Financing Act 2023 (up to tenfold voting power, with sunset clauses); Austria followed with the 2026 amendment to stock corporation law.

The tools work — but they all cost valuation, for they weaken precisely the disciplining mechanism the capital market pays for. Shleifer and Vishny (1986) show the productive side of the large shareholder: he monitors management, to everyone's benefit. The unproductive side are private benefits of control at the expense of the free float. Issuers should therefore fix the control architecture before the IPO and be able to explain it in the prospectus — retrofitting control against one's own shareholders is expensive and damaging to reputation.

10.5 Shareholder Activism and the New General Meeting

The takeover market is not the free float's only disciplining instance. Activist investors acquire minority stakes and push strategy, payout, or personnel demands through public campaigns; Brav, Jiang, Partnoy, and Thomas (2008) show that such campaigns on average trigger price gains and operating improvements — from the free float's perspective the activist is frequently a corrective, from the board's an exhausting one. Added to this is the quiet power of proxy advisers and index funds: their guidelines on pay, independence, and capital measures decide general meeting majorities long before any activist appears.⁵³

For the new issuer this means: the general meeting is no formality but an annual examination of governance. Pay systems, supervisory board composition, and capital authorisations should from the outset withstand the expectations of institutional investors — attracting press attention with 30 percent dissent damages the currency created at the IPO. The good news of the worked example applies here too: with 68 percent family ownership, resolutions are secured; ignoring the market's expectations nevertheless costs valuation — control protects against defeats, not against discounts.

10.6 Designing the Shareholder Structure: Anchors, Cornerstones, Public

The shareholder structure after the IPO is no accident of the order book but designable — and it should be designed, for it determines price behaviour, general meeting dynamics, and takeover protection for years. The spectrum runs from the anchor investor who takes a block before the IPO and signals stability, through cornerstone subscriptions in the order book, to the deliberate mix of long-only funds, index investors, and a retail tranche. The allocation of Section 7.2 is the steering instrument: favouring long-term holders forgoes short-term demand in exchange for calmer prices; allocating generously to hedge funds produces a lively first listing and a shorter-term shareholder base.⁵⁴

⁵³ Proxy advisers such as ISS and Glass Lewis bundle the votes of institutional investors; their voting guidelines act de facto as a second rulebook of the general meeting.

⁵⁴ Cornerstone investors commit to a fixed amount before the roadshow and are named in the prospectus; their names serve as a quality signal for the rest of the order book.

For family businesses, the compatible anchor investor — a foundation, a family office, a strategically silent partner — is often the key that makes the IPO acceptable in the first place: he fills the gap between the free float the market demands and the majority the family wants to keep with a familiar face. The selection belongs in the earliest project phase; an anchor who must be found during the roadshow is none.

11 The Decision: When Does Going Public Pay?

11.1 The Decision Framework

The findings of Sections 8 to 10 condense into a decision framework. Going public pays when three conditions hold at once. First, capital need: the company needs equity in a magnitude or repetition that private sources — including mezzanine and private equity — can no longer cover, or its owners need liquidity without selling control. Second, maturity: reporting, leadership organisation, and forecasting ability carry the beat of Section 9.4 — as a guideline, a market capitalisation from 200 to 300 million euros and an issue volume from 50 million euros, below which fixed costs and illiquidity consume the benefits. Third, owner willingness: the sharing of control of Section 10 and the transparency of Section 9 must be wanted, not merely tolerated. Table 9 summarises the touchstones.⁵⁵

Table 9: Touchstones of the going-public decision

Dimension	Guiding question	Guideline / indicator	Points toward
Capital need	Does the equity need of the next 5 years exceed private sources?	> €50–100m	IPO
Repetition	Are follow-on offerings or an acquisition currency needed?	active M&A agenda	IPO
Size and maturity	Can the organisation carry quarterly reports, IFRS, the ad hoc regime?	MC > €200–300m; revenue in the hundreds of millions	IPO
Forecasting ability	Are results plannable and disappointments rare?	low earnings volatility	IPO
Willingness on control	Do the owners accept free float, notifications, the takeover market?	free float $\geq$ 25 % intended	IPO
Discretion	Does the business model live on secrecy toward competitors?	high competitive sensitivity	stay private
Alternatives	Do bank credit, mezzanine, or PE cover the need more cheaply?	available private offers	stay private
Market window	Are valuations and IPO activity receptive?	open issuance window	timing question

Source: own compilation based on Sections 8 to 10.

⁵⁵ The thresholds in Table 9 are practical guidelines for the German-speaking region, not legal limits; individual successful IPOs fall well below them.

Table 9 is deliberately built as a checklist rather than a scoring model: the first five rows are necessary conditions — if one is missing, the IPO should wait —, the last three are matters of weighing and timing. Striking is what the list omits: the age of the company and the desire for prestige. Both are the worst advisers in stock market history.

11.2 The Countercase: Why Fewer Companies Go Public

A decision on an IPO today should take into account that the trend has run against it for two decades. The number of listed companies in the United States has almost halved since 1996 (Doidge, Karolyi, and Stulz, 2017); Europe shows the same direction, and in 2025 the whole continent counted only about 100 IPOs. Gao, Ritter, and Zhu (2013) explain part of it through economies of scope: small companies more often sell themselves to large ones instead of listing, because speed has become more important than independence. Ewens and Farre-Mensa (2020) add the capital side: private markets have become so deep that even billion-euro valuations can be financed without an exchange — going public has turned from a necessity into an option.⁵⁶

For the decision this does not mean that the IPO has become unattractive — it means it has become choosier. The companies that list today are larger, older, and more mature than the cohorts of the 1990s, and precisely thereby the quality of the decision has risen: companies meeting the criteria of Table 9 go public today with better prospects than ever, while for the remainder more suitable alternatives exist than ever.

11.3 Timing: Windows, Waves, and the Current Market

IPOs come in waves: issues cluster in phases of high valuations and optimistic investors (Lowry, 2003; Pástor and Veronesi, 2005), and between the waves the windows close almost completely — the German market saw quarters without a single new issue after 2021. For the issuer an uncomfortable asymmetry follows: the company must be exchange-ready before the window opens, for the lead time of Figure 3 is longer than any window. The issuance year 2025 illustrates both — the selectivity and the opportunity: seven German IPOs, among them TKMS, Aumovio, and, as the largest, Ottobock with about 865 million US dollars of volume and around 5 billion US dollars of valuation, stand for a narrow but receptive market that rewards mature issuers with a clear equity story (EY, 2025).⁵⁷

Practically, timing means three things: decoupling the preparation from the state of the market (becoming exchange-ready is weather-independent), adapting valuation expectations to the window rather than the reverse, and maintaining a plan B — the dual

⁵⁶ Doidge, Karolyi, and Stulz (2017) quantify the gap: measured against economic weight and historical pattern, the United States lacks several thousand listed companies.

⁵⁷ The market data follow the EY IPO barometers (2025); the transactions named serve as illustration, not as an assessment.

track between IPO and sale that professional sellers run as standard. That limits dependence on the most capricious factor of the entire decision.

11.4 Three Archetypes of the Going-Public Decision

The touchstones of Table 9 can be made concrete in three archetypes that together cover most real IPOs. Type one is the family business in its third generation — the worked example of this paper: capital need for internationalisation, a shareholder circle growing broader and more heterogeneous, the desire for partial liquidity without loss of control. For it, the IPO with a limited free float and, where appropriate, a KGaA structure is the tailor-made answer — the alternative would be the owner buy-out of Section 5.4. Type two is the venture-backed technology company: here it is not the company that presses but the fund seeking its exit; the exchange competes with a sale to a corporate, and the decision falls on valuation, market window, and the management's desire for independence (Black and Gilson, 1998; Lerner, 1994).⁵⁸

Type three is the group spin-off: a parent floats a division to create focus, its own capital market access, and a market price for the part-business — the 2025 vintage with the separations of TKMS and Aumovio stands as an example (EY, 2025). The spin-off is the most mature archetype: reporting and governance already exist on the group side, and exchange readiness is a matter of disentanglement rather than construction. The three types differ in almost everything — what they share is that the exchange solves a specific problem in each case: generational capital, fund exit, group focus. Where one's own company recognises itself in none of the three, the honest question is worth asking which problem one's own IPO is actually meant to solve.

11.5 The Roadmap: 36 Months to the First Listing

If the decision is positive, it becomes a project. Table 10 condenses the findings of Sections 6 and 7 into a timetable from the decision in principle to the first listing — deliberately generous, for the recurring experience of issuance practice is: time is always missing at the end where it was saved at the beginning.⁵⁹

⁵⁸ The archetypes are stylised; real cases mix the motives. The spin-off listings of the 2025 vintage (TKMS, Aumovio) show the third type in pure form.

⁵⁹ The timetable condenses Sections 6 and 7 into a work agenda; the phases overlap in practice, and an open market window can compress the last twelve months considerably.

Table 10: Roadmap to the IPO: work agenda of the final 36 months

Period	Work package	Responsibility	Reference
36–24 months	decision in principle, equity story, clean up ownership, staff the advisory board	owners, management	Sections 6.4, 6.5
30–18 months	conversion to AG (KGaA/SE), raise accounting to IFRS and quarterly capability	CFO, advisers	Sections 6.1–6.3
24–12 months	staff the organs, build compliance and ad hoc organisation, mandate IPO adviser	management and supervisory board	Sections 9.4, 9.6
12–6 months	bank selection, due diligence, prospectus work, analyst education	CFO, syndicate	Sections 7.1, 7.2
6–0 months	segment choice, pre-marketing, roadshow, bookbuilding, first listing	management board, syndicate	Sections 7.2, 7.3
after listing	IR operations, periodic reporting, manage lock-up expiry	management board, IR	Section 12

Source: own compilation; periods as guidelines.

11.6 What the Issuing Houses Examine: IPO Readiness from the Banks' View

It pays to pose the decision question from the other side of the table as well: when does an issuing bank consider a company exchange-ready? The practice of the large houses examines five fields. First, the equity story: a growth path that can be told in three sentences and proven in numbers. Second, the track record: audited accounts in which the story is already visible — the capital market buys sequels, not turnarounds. Third, the finance function: quarterly close within weeks, robust planning, a clean bridge from legacy to IFRS accounting. Fourth, governance: independent supervisory board members, orderly pay, no open conflicts in the shareholder circle. Fifth, the capital market fitness of the management: a board that holds its own before investors — the roadshow is also an examination of the people.⁶⁰

Remarkable is what this list lacks: the valuation. Banks know that prices can be negotiated, maturity cannot. For corporate leadership, the banks' view is thus a useful mirror of Table 9 — and a timetable: each of the five fields needs one to two years of lead time, and none can be made up in the issuance year. The best preparation for the meeting with the banks is to work through their checklist beforehand oneself.

12 After the IPO: Life as a Listed Company

12.1 Investor Relations and the Care of Expectations

With the first listing, the real work begins. The listed company maintains a standing relationship with an audience that votes daily: investor relations becomes a leadership

⁶⁰ The issuing banks and the large audit firms have standardised the criteria in formalised IPO readiness assessments; an external readiness review twelve to 24 months before the target date is now market standard.

function that orchestrates roadshows, analyst conferences, capital markets days, and consensus care. The discipline of Section 9.5 becomes routine: guidance is set so that it can be kept; analysts' estimates are monitored, and looming deviations are communicated early and in orderly fashion before the ad hoc duty forces them out. Companies that master this expectations account turn the reporting duty into an advantage: reliability is priced — with lower capital costs and a valuation premium over erratic competitors.⁶¹

12.2 Capital Measures: the Exchange as a Repeatable Source

The durable yield of the IPO lies in its repeatability. Capital increases — with subscription rights or in the accelerated procedure from authorised capital — raise equity within days at a fraction of the first-issue costs; convertible bonds use the listed share as underlying; and the share itself pays for takeovers and employee programmes. Dividend policy becomes a signalling instrument in the process: a dividend once begun counts as a promise, its cut as an alarm — which is why listed companies smooth payouts and start rather cautiously. The way back into debt also becomes easier: rating, disclosure, and capital market history lower the interest costs of bonds and *Schuldschein* notes — the listing cheapens the entire liability side, not only the equity.⁶²

12.3 The Way Back: Delisting and Going Private

Going public is no one-way street. Where the costs of listing permanently exceed its benefits — too small a float, no analyst coverage, no issuance prospects — the orderly retreat is the rational answer: the delisting after a purchase offer, frequently as a going private with a financial investor and technically the management buy-out of Section 5 in reverse. On reaching the thresholds of 95 and 90 percent respectively, the main shareholder can squeeze out the remaining minorities against cash compensation. That this cycle — to the exchange, from the exchange, back to the exchange — works is no flaw but proof of the division of labour of the capital markets: public and private ownership are tools for different company phases, and the best legal-form and financing policy changes the tool when the phase changes (Jensen, 1989; Kaplan, 1991).⁶³

⁶¹ The capital market organisation includes, besides investor relations, the ad hoc committee, insider list maintenance, and executive training — functions that must be in place before the first listing.

⁶² The subscription right protects old shareholders against dilution; its exclusion is permissible only within statutory limits (simplified, up to 10 percent of share capital close to the market price).

⁶³ DeAngelo, DeAngelo, and Rice (1984) document substantial premiums for minority shareholders in going-private transactions; in Germany, delisting requires a purchase offer to all shareholders.

12.4 When the Price Falls: Crisis Communication in the Capital Market

Every listed company experiences the day on which the findings of Section 9.5 become concrete: guidance must be cut, the price breaks, and journalists call before the analysts do. For this day there is a proven script, and its first sentence reads: fast, complete, once. The ad hoc duty demands immediate disclosure anyway; it is also economically wise, for bad news in slices — the salami tactic — keeps the price under pressure longer than a single, complete cut with a credibly conservative new plan. The second sentence reads: presence over cover. Boards that cancel analyst calls in the crisis confirm the worst reading; remaining reachable and giving the same facts to everyone at once shortens the phase of speculation.⁶⁴

The deeper lesson concerns the time before. Price disappointments are laid down in good times: through guidance at the upper edge, through serving every analyst expectation, through a valuation that forgives only perfect execution. The most sustainable crisis communication is therefore the expectations policy of Section 12.1 — forecast conservatively, deliver reliably, voice disappointments rarely and then completely. Companies with this reputation survive bad quarters with price dents; companies without it, with crises of confidence.

12.5 The First 180 Days: Lock-up Expiry and the First Reporting Season

The first six months after the listing decide the reputation of the new public company. Three dates structure them. The first quarterly report is the baptism of fire of forecasting ability: it must confirm the prospectus statements, or trust is damaged before it was built. The first general meeting establishes the governance culture — well prepared it is routine, badly prepared a public tribunal. And the expiry of the lock-up brings the first predictable supply overhang: the market knows the old shareholders may now sell, and prices it in; smart issuers address the date head-on — with clear statements by the anchor shareholders on their holding intentions or with orderly, announced placements.⁶⁵

Planning these 180 days with the same care as the IPO itself turns the most critical phase into the foundation of capital market reputation. After that, everyday life begins — and with it the quiet truth of this paper: the IPO is a day, the public company a permanent task. Where the objective was confined to the day itself, the question posed in the title has been answered incorrectly.

⁶⁴ Proven practice is the separation of fact and interpretation: the ad hoc notice carries the fact, the accompanying communication the framing — in that order, never the reverse.

⁶⁵ The expiry of the lock-up period is a publicly known date; price pressure around it is well documented empirically and should be prepared for communicatively.

13 Conclusion and Outlook

When does it make sense to become a listed company? The answer of this paper is a triad of capital need, maturity, and owner will. Going public pays when the equity need structurally exceeds the capacity of the private sources — internal financing, bank credit, mezzanine, private equity — or the owners seek liquidity without selling control; when the organisation carries accounting, forecasting, and disclosure at capital market level; and when the owners not merely tolerate but intend to use the exchange's basic bargain — permanent transparency and shared control against permanent capital access. If one of these three elements is missing, waiting is not weakness but the right capital allocation: the private financing ladder of this paper carries further today than ever before.⁶⁶

Three guidelines follow for the practice of corporate leadership. First: the legal form follows the business, not ambition — every rung from the partnership through the GmbH to the AG buys capital access against formality, and the conversion to the AG belongs years before the IPO, not weeks. Second: the IPO is to be read as a price tag — in the worked example, fees, ancillary costs, and underpricing together cost about a fifth of the placement volume, and the running costs of disclosure, cadence, and expectations management never end. Knowing this account and setting the benefits against it — issue proceeds, acquisition currency, follow-on offerings, liquidity premium, visibility — decides soberly rather than festively. Third: control is designable — free float ratio, anchor stake, KGaA, or multiple voting shares permit almost any gradation between family rule and full capital market opening, but every protection of control costs valuation, and it belongs before the prospectus, not into the defensive battle.

The limits of this paper mark the open questions at the same time. The worked examples are stylised; tax questions, industry particulars, and the concrete contracting of mezzanine and buy-out structures demand case-by-case advice. Empirically it remains open whether the migration of corporate financing into private markets is a cycle or a structural break — and with it, whether the exchange keeps its role as the maturity test of entrepreneurship or must win it back with facilitations such as the EU Listing Act. The outlook is clear nonetheless: as long as companies grow, owners age, and capital seeks valuation, the road from the GmbH via the AG to the exchange will be travelled — by fewer companies than before, but by better prepared ones. To belong to them is the real purpose of the touchstones of this paper: to know what one trades away, what one gains, and when the trade pays.

⁶⁶ This paper serves informational and educational purposes only; it does not constitute legal, tax, or investment advice.

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