

The Analysis of Volvo's Initial Public Offering

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Abstract: To raise money for the transformation of electric cars, the Stockholm Stock Exchange is about to open trading for Volvo shares. Nowadays, more and more companies choose Initial Public Offering (IPO) to excessive their period of financial embarrassment. As a good deal, this research will analyze the main problems and weaknesses of IPO. An in-depth and detailed analysis of the reasons for the rejection can clarify the needs of the capital market on the specific requirements of the listed company, and guide the company to be listed in the listing declaration targeted into the line of rectification. At the same time, it is also for the listed company to compare their own industry conditions. The development stage, business characteristics and profit model, for the company's self-consideration of whether in line with the conditions for listing substantial judgment provides a specific reference basis. Ultimately, the paper found that productivity had a positive development with the help of the IPO. In the paper, the experience of Volvo's IPO showed that IPO was a good method to help companies gain money.

Keywords: electric cars, IPO, financing

1. Introduction

Nowadays, the vehicle industry is facing crucial opportunities and challenges. On one hand, environmental protection and sustainable development are two of the electrics of today's world. Therefore, the vehicle industry is undergoing a wrenching transformation from fuel vehicles to electric vehicles, which conforms to the trend of world development and also meets the new market demand of consumers for clean energy and green transportation [1]. On the other hand, COVID-19 also creates new challenges for the electric vehicle industry. The disruption of the supply chain and the strict isolation policy have a serious influence on chips, which generates the chip crisis and semiconductor shortage. As a result, the electric vehicle industry is facing a tough market condition with high raw material costs. Focusing on the vehicle sector, enterprises like Tesla and BYD entered into the electric vehicle track, having large market shares and strong competitiveness. However, traditional companies like Volvo are late to the track and lack competitiveness. Moreover, the high research and development (R&D) investment in the early stage of the transition increased significantly in these companies due to the pandemic. Volvo, as one of these traditional enterprises, eventually chose to complete an IPO as the method to raise capital and promote the transformation [2].

Whether it's established original equipment manufacturers (OEMs) looking to fund diversification or start-ups in emerging technologies utilizing them to build up their operations, initial public

offerings (IPOs) are becoming more and more common within the automobile industry as a means of obtaining capital. An initial public offering (IPO) includes a private company giving investors the chance to purchase shares through a public stock exchange. Research indicates that following a good start in 2020, IPO activity decreased over the year in all regions as equity markets experienced concerns about a worldwide recession brought on by COVID-19. The technical, industrial, and healthcare sectors were the few areas of growth. Consequently, in this unique new setting, a company that wants to be in progress IPO may carry out different methods. This article analyzes Volvo's successful case to comprehensively explain the conditions for performing an IPO and the internal impact of the IPO on Volvo, telling exactly what needs to be attention to during the IPO.

As the main body of economic development, the capital market, with its an increasingly important role. However, a company wants to successfully conduct an IPO only after careful consideration. The article would become a reference for other companies that want to conduct an IPO. To support better long-term performance, the paper shows to other companies before IPO with better suggestions. During the process, the result would be beneficial to the owner for the decision to IPO, to successfully complete the IPO process, and to remain proactive in the post-marketing phase.

To sum up, the article chooses the IPO event of Volvo and is conducted by document analysis method and Image analysis method to analyze the objective and effect of Volvo's IPO.

2. Case Analysis

2.1. Challenge for Volvo's Cars

There are external and internal challenges during Volvo's IPO and they are divided into four parts in total.

Firstly, the external challenges. The first is due to the global trend of moving from fuel to electric vehicles, and if Volvo doesn't keep up with this trend, it is likely to be eliminated from the market later on. Secondly, the European Union has banned everyone from selling fuel cars in 2035 and beyond, so Volvo Cars is forced to make the transition.

Volvo's main business is selling fuel cars, so if it were to transform and ban the production of fuel cars, Volvo Cars' profits would drop significantly. At the same time, Volvo has had little exposure to electric cars before, so it has very little competitiveness and experience in the market for electric cars.

All in all, all four of these challenges are driving Volvo Cars to make the transition from fuel cars to electric vehicles, so Volvo needs the money, and the best way for them is to go IPO in the special period to raise money [3].

2.2. Pros and Cons of Volvo's Initial Public Offering (IPO)

On Friday, October 28, Volvo shares will begin trading on the Nasdaq Stockholm Stock Exchange under the symbol Volvo in one of the largest initial public offerings (IPOs) in Europe thus far in 2022. With the shares set to float at 5.08 dollars per share, Volvo plans to raise money for manufacturers only electric cars by 2030. Their full demand is to make all shares sold and over allotment option was fully exercised. And up to now, it has raised two billion dollars.

However, Volvo has faced some pros and cons. Concerning pros, more liquidity for area extension. The offering's price per share has been set at \$5.13, with 193.6 million dollars being the total offering value. Geely Sweden has also given the Joint Global Coordinators the option to purchase up to an extra one common shares of class B, which is equal to a maximum of 15% of the shares in the offering, to cover any over-allotments in connection with the offering. What's more, the over-allotment option has been exercised in full for 290.4 million dollars, and the stabilization period has ended. At the same time, Volvo enhances its prestige and brand image by listing the company. Lastly, it enhances

benchmarking: increasing the competitiveness against the competitors, such as Audi, Volkswagen, and Tata Motors [4, 5].

Concerning the cons, management may lose control of the business. Even the parent firm had to give in and cut the planned IPO price to the very bottom of its initial range since Geely was demanding greater voting control than its investment. In addition, it's easy to be speculated by securities firms. Next, after the IPO, When pricing has to alter in order to achieve its goals of electrifying its line up and the consumer demand for EVs in the future, the impact of listed corporations grows and it is simple for securities firms to speculate. Lastly, increased operating expenses. Volvo's IPO occurs at a time when demand for electric vehicles is soaring along with the acceleration of sustainable investing and the shift to green technologies, but in the short term, production bottlenecks in the supply chain and a global chip shortage pose a challenge for Volvo and the larger auto industry [6].

2.3. Overall Evaluation of Volvo's IPO

Considering all the basic information, advantages and disadvantages of Volvo's IPO, the article believed that the IPO was a good deal for Volvo cars.

On one hand, IPO brought a lot of benefits to the enterprise. First, as the paper mentioned, all the shares of Volvo's IPO were sold and over allotment option was fully exercised, which means Volvo had the full demand when it completed its IPO and raised 22 billion dollars for transformation. Second, according to its quarterly and annual reports, there is a significant increase in EBIT in Fig. 1, gross margin, and investment in BEV from 2021Q3 to 2022Q2 after Volvo making IPO, as the paper can see in the figure. The raised money did boost Volvo's investment in electric cars and raised its income [7].

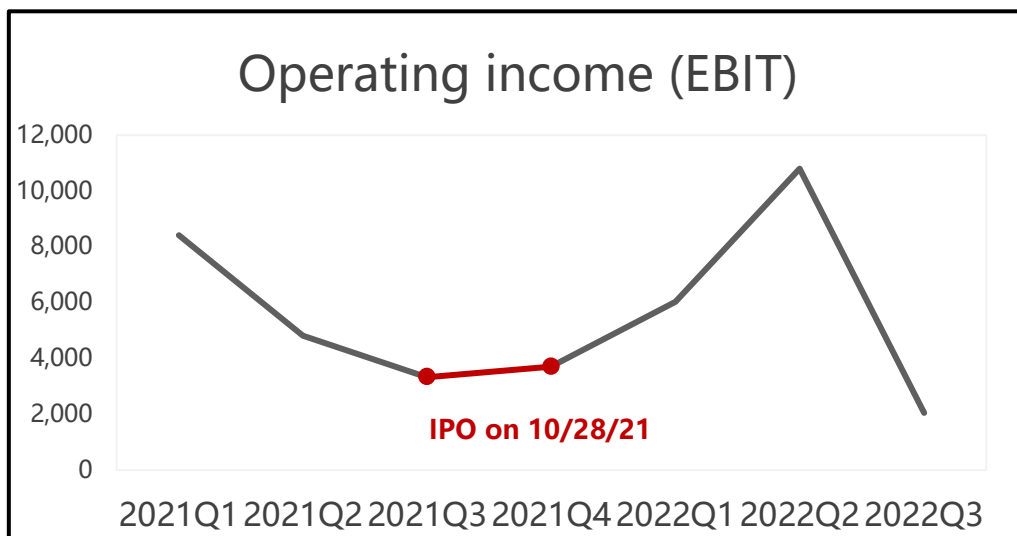


Figure 1: EBIT of Volvo.

On the other hand, Volvo does have some problems that can't be ignored. But the problems are mainly due to some anomalies in the external environment, rather than mismanagement within Volvo. The first problem is the decrease in Volvo's share price. According to information from the Stockholm stock exchange, Volvo's share price has decreased by 5% from IPO to the present. However, the whole stock index of Stockholm has decreased by 9% during the period, which is much lower than the decrease proportion of it in Volvo. So the article can speculate that it was the price fluctuations in the market that contributed to the decrease of Volvo's share price [8]. The second problem is the surprising drop in all income and investment in the third quarter of 2022 as the paper can see in Fig.

2 and Fig. 3. Because of its anomaly, the paper looked at the market background in the third quarter of this year and found several external reasons [9].

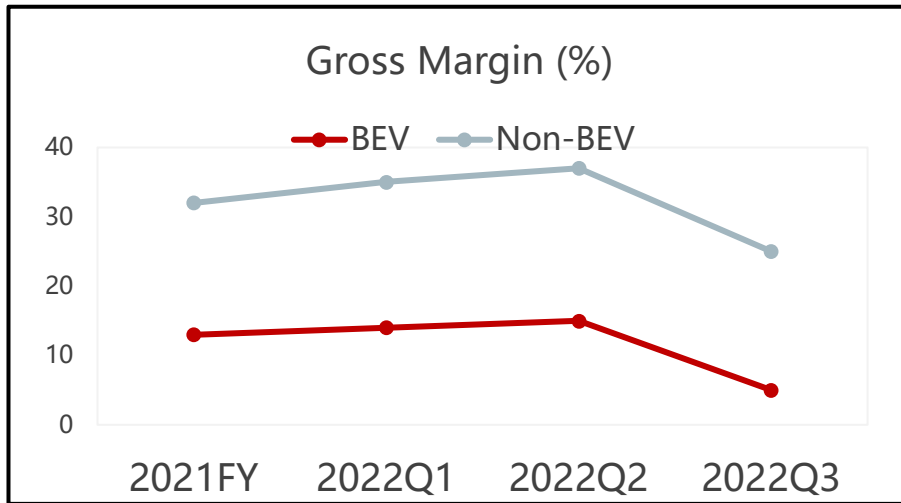


Figure 2: Gross Margin of Volvo.

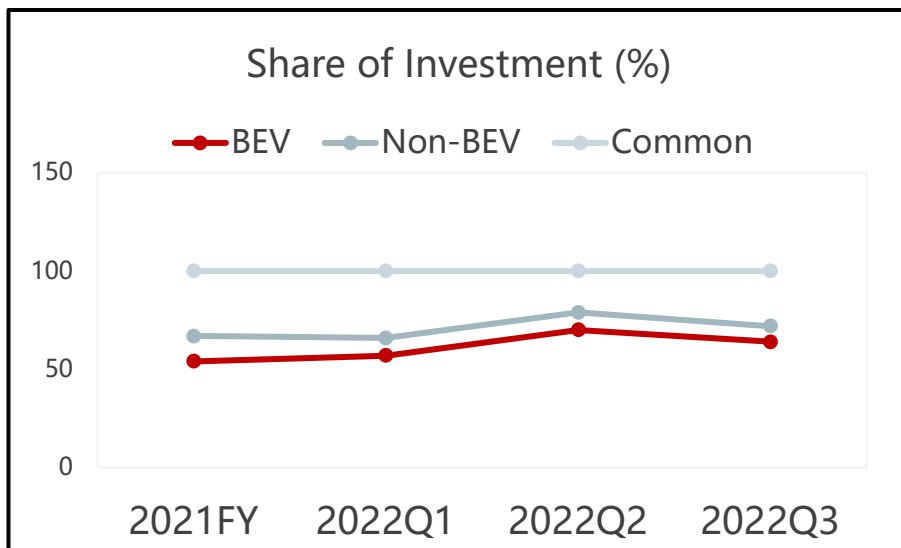


Figure 3: Shares of Investment of Volvo.

In the first place, the market is facing a high rare material cost because of the pandemic and the disruption of the supply chain. In another, the semiconductor shortage became much more serious because of the chip shortage in the third quarter of this year. What's more, due to the transformation of Volvo's cars from fuel vehicles to electric vehicles, the research and development expenses were much larger than before, tightening their profit margin [10].

In conclusion, most of the factors that resulted in these anomalies are external and temporary. As these external factors gradually fade, with growth before the second quarter of this year, there are still reasons to believe that Volvo can use the capital from the IPO to accelerate its transformation.

3. Suggestion

Due to following the global trend, companies want to raise money to create profit under less competitiveness and experience. During the process, there are some suggestions for other corporations which want to be in progress IPO.

The article shows the superiority of IPOs raising money from investment to improve reputation and brand image, leverage, and competitiveness with competitors. At the same time, companies should also examine the inevitable shortcomings. Management may lose control of the business, and then it's easy to be speculated by securities firms, and what's more, higher operating costs for new technology and raw materials. With respect to uncontrollable factors, price volatility in the market could lead to a drop in share prices. Lastly, material shortage and R & D costs are also market factors that need to be emphasized.

4. Conclusion

IPO has an important impact and significance on companies. The paper clearly tells that an IPO is a good chance for the enterprise to raise funds, improve the company's visibility and degree of credibility, increase the stability of corporate governance, drive the stock appreciation effect, and plan enterprise development strategy.

In terms of main problems and weaknesses, the article shows that the market pricing will lead to the share price down, directly affecting IPO. At the same time, the outdoor environment would exert an influence. For example, during COVID-19, material shortage, and research and development profits increase. Precisely because complying with the needs of the capital market, the IPO of Volvo can go well and bring a lot of beneficial results. While seeing these advantages, it is inevitable that IPO will also bring us the disadvantages, comprehensively evaluate the advantages and disadvantages of IPO, and learn to look at them with an objective perspective, to make IPO imply service for our purpose. The paper gives suggestions for the companies as a way to compete with others in the late stages, lack of competitiveness, and early embryo development stage.

Future research should give brand image evaluation more consideration, market prospects and financial stability of enterprises, which is also an important guiding role for the development of enterprises themselves.

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