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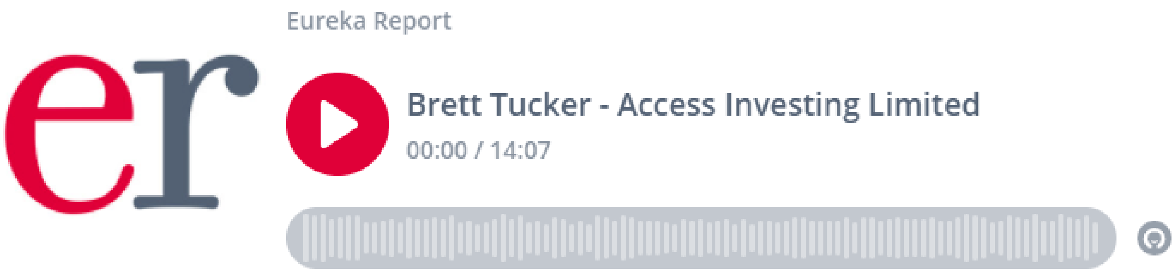
Levelling the Pre-IPO Playing Field for Retail Investors

Brett Tucker, managing director of Access Investing, explains how his company provides retail investors with rare ground-floor access to companies that are headed for an initial public listing on the exchange.

Alan Kohler·8 Jul 2021

Brett Tucker, who along with a few associates, has launched a business called Access Investing and the idea is that they will invest in pre-IPO companies, that is to say companies that are planning to float. They would invest in them before they float and they would distribute the shares in them to their investors after they float, so whatever they invest in, you would end up as a shareholder in that company that's now listed, but you've bought the shares or got the shares at a price that's pre-IPO, which is typically, he says, an average of 25 per cent below the IPO price.

It's an interesting idea, it's probably worth listening to Brett and having him explain it, so here he is, Brett Tucker of Access Investing.



Brett, tell us about how Access Investing works. You're a pooled fund basically, aren't you, where you distribute the shares that you buy to your shareholders later on?

Yeah, that's right. We have some similarities with a managed fund and some differences. The first two steps in our process, I suppose, are similar to a managed fund. We pool funds from the public for the purpose of investing and then, over the course of however long it takes but hopefully less than 12 months, we'll apply those funds to pre-IPO opportunities and then our point of difference here is that, once we've made those investments, as each company in our portfolio reaches IPO stage, we'll distribute those investments or those shares back down to our retail shareholder base which gives them control over trading decisions on a company-by-company basis, which is different to a managed fund, which as you know, holds a portfolio and continues to manage that on behalf the base and you really can't make decisions, it's really over a portfolio basis.

Yeah, I guess our rationale or our goal is to really give people control over the investments at the end of the day so they can buy/sell/hold as the case may be, as they decide. It really is marketed for those retail investors who otherwise couldn't get access to pre-IPO opportunities.

So, you expect to be a temporary holder of shares in companies before they IPO, right? How long would you regard or would you think the typical holding period would be before you distribute the shares?

Yeah, that's right, we sort of view ourselves as an enabler and sort of recycling capital that people give us. People give us cash and they get shares in us, but then we'll return them shares, so really a recycling of cash to shares. I guess the typical return period that we're targeting is about three to 18 months, so we're targeting companies that are in advanced preparations for listings, call it three months from IPO, then even companies as far as 12 to 18 months from IPO.

This is for retail investors presumably, so it could be a small amount of investing, like $5,000 or $10,000 dollars, right?

That's right, we have a minimum of $5,000.

If someone invests $5,000 dollars and you invest in half a dozen pre-IPO companies, I suppose in the end you'd end up with a small number of shares in each of them, right?

That's right. We'll assess the number of IPO opportunities we take on based on the average investment size and how much we raise in total. But we're definitely mindful of that and we don't want to spread the capital too thin and in an ideal scenario, we'll return spread parcels, so $2,000 dollars by value, which will assist the companies that we invest in, in fulfilling that at the ASX spread requirements. We're definitely mindful of not spreading people's capital too thin when selecting the portfolio.

How will you go about choosing the investments that you put the money into?

We're looking for, obviously, a good return from private to public, but we're also looking for companies that will continue to perform well in the long-term. It will be an incentive for our holders not to sell sort of day one and potentially create a bit of an overhang in the stock. We want to invest in quality companies that will have a good uplift of IPO, but then generate returns afterwards.

Would the shares in the company that you've invested in be distributed to your investors before the IPO, before they start trading on day one, so that they could sell on day one if they wanted?

That's right. Obviously, subject to any escrow, but that's the goal and that's how it's going to work. Day one, to the extent there's no escrow, they can make a trading decision.

Have you done some research in what the average uplift between pre-IPO and IPO?

Yeah, so there's obviously a bit of a range out there, but you typically see a 20 to 50 per cent discount to the pre-IPO, which equates to 25 per cent return to 100 per cent return.

Just take me through that again, what do you mean, a 20 per cent discount to what?

A 20 per cent discount to the IPO price. You'll generally see that quoted from companies when they're raising money, they sort of talk relative to the IPO price. In the case of a 20 cent IPO, a 20 per cent discount to IPO, you're looking at a 16-cent offer which is, in the hands of a pre-IPO investor, is a 25 per cent uplift. I guess, if we're talking pre-IPO returns, you generally see a 25 per cent, even 100 per cent, uplift for pre-IPO investments.

And so, the thing is, a pre-IPO investment is a known thing, right? Companies often go to venture capitalists or private investors for pre-IPO which is like three to six months before their proposed IPO and they know they're going to IPO, right?

Yeah, that's right and they're raising a little bit of capital either to fund the listing cost or to try to build a valuation in a short amount of time before listing development capital. But, yeah, it can be as short as three months, it can be as long as 12 months, and that's what we refer to as the last private offer or the pre-IPO. But in our case, we're targeting investments in companies probably one step before that. If they need some capital for development, if they probably will do a pre-IPO after our round at a higher valuation we're happy to look at that. That's a bit of a niche or a bit of a funding gap in the market as well that hopefully we'll meet.

There are a lot of, obviously, brokers and high net wealth individuals that will get on board if they see a short-term IPO, sort of three to six months, because it's not that risky at that point. But we're willing to go back one step further and look for those companies targeting 12 to 18 month listing, but hopefully with that comes a significant uplift for us.

So, you're not only going to invest in companies that are explicitly pre-IPO?

Exactly, yeah. We call it late-seed or series A capital.

How will you identify these? All of them, pre-IPO and series A, B or whatever it is?

Yeah, so we've got the board and investment committee, between us there's a combined 150 years' of industry experience and we've got our own networks of advisers and brokers and the like, so that'll be our focus once we've completed the capital raising, to invest people's funds in quality pre-IPO investments that will have a good uplift.

You've got a prospectus out now, how much are you looking to raise?

Between $3 million and $10 million.

What if it takes a while to find investments for that, what happens to the money in the meantime?

Well, as soon as the minimum's reached, we can close, but we can extend the offer as long as we need, really. But I think the market's obviously pretty good at the moment and we're confident of hitting the minimum in the next three, four, five weeks. Then once it's closed, we act like a closed fund, so we won't be taking subscriptions again, we've got our capital and we'll get on with the job.

Are you going to float yourselves?

No, there's no benefit to us, we're just, like I said, a market enabler and we just want to recycle people's capital in the form of shares that they wouldn't otherwise have access to and providing the experience of our board in selecting opportunities on their behalf as well.

How much do you charge?

We take a fee of 7.5 per cent by number of the shares that we invest in. It's really a success fee, so we retain that after we've distributed the shares back down to a retail base. If they don't get any shares back, we don't make any fees.

Right, okay, so each time you distribute, you'll keep in your company that you own, 7.5 per cent of the shares?

That's right.

Do you see this as an ongoing thing? Once, say, you've raised $10 million now, you get the maximum you want, you invest that over the next, say, six months in half a dozen pre-IPOs, as they IPO over the next year or two and you distribute those shares, what happens, do you just close down again or do you do another prospectus?

We've finished our goal, we've returned people's capital, that will really be effectively the end of our company. I guess if the model's proven successful and there's good demand in the subscription and we generate a return to people, then maybe we can do it again. But our focus will be just on generating returns for our current shareholders and really just providing new retail investors with access to investments they otherwise wouldn't have got. Then, like you said, we can consider doing it again but it'll really just be the focus for Access Investing. I will say, just on the fees, that we are comparable with a lot of other wholesale unit trusts out there that focus on pre-IPOs once you take into account their performance fees and their management fees if they're generating 20, 30, 40 per cent per annum, then we're sort of quite like-for-like in that regard.

Just taking through the scenarios, say you do raise $10 million dollars and you invest it all in pre-IPOs and the average uplift of 25 per cent applies, then that $10 million is turned into $12.5 million, right?

Yep, exactly.

And you'll keep just under $1 million dollars of that?

Yes.

Right, so that's the plan, then you'll go away and do something else, is that the idea?

Yeah, and then the people that have invested in us have shares that were secured at pre-IPO prices that are now trading on the ASX and we've done our job in that regard and maybe we'll go off and do it again, but the focus will just be on Access Investing in the meantime.

Yeah, right, interesting. Thanks for talking to us, Brett.

Not a problem, Alan.

People can go to your website if they're interested, accessinvesting.com.au, and apply, is that correct?

That's right, yeah the prospectus offer is now live and we have an indicative close of 30 July.

Well, good luck and thanks for talking to us.

Thanks, Alan.

That was Brett Tucker, the Managing Director of Access Investing.

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