

# Here's how retail investors might be able to invest in pre-IPO companies

News

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Investing in pre-IPO companies is no easy feat unless you're a sophisticated investor, but Open Investing wants to change that.

A key advantage of obtaining sophisticated investor status is that you can invest in companies looking to raise pre-IPO funding before they issue a detailed prospectus.

**Any offer of securities to retail investors, regardless of the stage the company is at, requires a full disclosure document — the prospectus.**

But with no such requirement for **sophisticated investors**, “sophies” are typically the only ones to get access to those investments at that early stage.

And as Open Investing managing director Brett Tucker notes, it's those same investors that share the spoils time and again.

Tucker spent the last several years at corporate advisory firm **Ventnor Capital**. He's also served as company secretary to several ASX listed companies, and has overseen a number of capital raisings.

“We see the same names pop up time and time again, the same high net worth investors, and seeing brokers take significantly discounted offers and give them a

good return for a small amount of time held. Sometimes it's three months or less until they come to market," he told *Stockhead*.

"And we're looking at ways to get those investments into the hands of retail investors. But we're also mindful of the Corporations Act requirements and protections around that process."

## **How to access pre-IPO companies**

Open Investing is currently seeking \$10 million in a capital raising from retail investors — funds it will then use to invest in wholesale offers in pre-IPO companies.

The offer has opened this week, having been lodged with ASIC last night, and will close on August 3.

The plan is that once those companies list on the ASX, these investments will be distributed to Open Investing shareholders based on their proportionate interest in the fund — less a small portion of shares retained as an investment fee.

"We'll have a pool of retail shareholders underneath us, and we hold those pre-IPO investments until they reach IPO. Then we distribute the discounted securities back down to our retail base," Tucker told *Stockhead*.

"It's similar to a managed fund in the first couple of steps in that we pull funds from retail investors, and we use these funds to invest in prospective pre-IPO opportunities once they have a good chance of generating a good return. Then we'll hold those companies until they list."

In order to meet regulatory requirements, Open Investing has lodged a prospectus of its own with ASIC, with a closing date of July 30 for retail investors to invest in the fund.

Tucker explained that once the fund's pre-IPO investments have listed on the ASX, the shares in those companies get distributed to retail investors.

"It's really just a return of capital that'll be done as each company reaches its IPO, then once we return all investments made we've effectively done our job," he says.

"You've got shares hopefully worth more than the investment you put in with us. And once we return those shares, you'll have no shares in our fund so we've recycled all that capital."

"You're given the cash, we've given you pre-IPO shares that hopefully are worth more than the cash you put in which compensates for the time and risk you've taken. And we're hoping for quite a significant uplift given when you typically see from pre-IPO investments."

## **How's it different from crowdfunding?**

The Open Investing platform may sound similar to crowdfunding — something that has grown in Australia in recent years with a number of competitors in the space.

There are also platforms such as 180 Markets and Fresh Equities that give retail investors access to companies that have already listed.

But Tucker says his platform occupies a unique market niche, specialising in companies that are highly likely to list and pre-vetting the investments.

“Crowdfunding is riskier – they don’t have an exit in mind – and the other end of the spectrum is if you invest on-market at IPO, that’s a full prospectus and the company is at a higher valuation,” he said.

“We’re slotting between a crowdfund and a public offer – they’re the kind of offers retail don’t have access to through any platform.”

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