Going Public?

By **MANO MAHADEVA**, CPA, MBA, Column Editor

As an executive of a private company, you see real demand for your products. You know what your customers want and you truly feel you can meet their demands. Your company is growing fast. It is profitable and you have a competitive advantage over others in your category. Feeling confident, you want to join the other lively companies that have recently emerged on the public market. Congratulations!

You won't be alone. IPO volumes have been at high levels over the past three years! The stock turbulence has not stopped IPO stock from flying to new highs. For investors looking to capture sizable gains in today's market, your stock may be worth the pursuit.

True, you seem worried about all the issues that came about in early 2000, such as:

- the corporate scandals and reforms,
- increased scrutiny by regulators,
- the principal-agent problem,
- activist involvement,
- short termism, and
- all the high costs of remaining public.

Yes, these are concerns that remain, so you will have to ponder these against the benefits the present business climate offers your company.

An IPO is a traditional way to raise capital for your company. Doing so can provide a liquidity event to reward your team for their efforts since start up. Your company has gone through many acquisitions and mergers, and it is now the category leader. At the present, it has a dominant market position. The bull market shows no signs of slowing down, with very affordable liquidity.

Trade tensions between the United States and other countries have created some profitable opportunities for you to seize. Your company has sizable debt due to your merger and acquisition strategy, and you would like to use the public exit to pay down some of this to adequately balance your corporate capital structure. Your present investors want to extract high returns from you to show their present and potential investors their investment prowess.

A word of caution – going public is not for the faint of heart. This is a long process, followed by trailing expenses likely costing millions of dollars. You will pay roughly 7-8 percent of all dollars raised to the underwriter who sells your stock. If your stock is valued too low, you leave money on the table; if priced too high, your offering can be a flop. You will deal with investors creating false demand, only to flip the stock shortly after you go public. In doing so, this also open doors to short sellers and activist investors, creating distractions from your initial mission.

It is not unusual for companies to disappoint in the earnings reports soon after going public – think Twitter and Facebook. Your growth story may not materialize or it may take too long – like Blue Apron, the meal delivery kit company, or Snap, Inc., parent of Snapchat, which are still struggling to get past their initial value.

Well, it appears that I have not dissuaded you yet! Let's discuss some good rules of thumb related to building a healthy, sustainable and predictable business. Early preparation is key:

- run the company as if it were public at least a year prior,
- run the quarterly earnings process,
- have mock earnings calls, and
- track your guidance against actual results.

Forecasts need to be close to expectations, timely and accurate, with no negative surprises. Confirm accounting treatments and reconcile differences with your auditor. Clean up financial statements before you go public, as doing so after will be difficult.

Invest money in resources – people and systems – to build robust business infrastructure to make the company more efficient and profitable by supporting growth initiatives. Hire a quality management team that includes a CFO who can be the face to investors and analysts, and to help educate them on the business and build long-term relationships. Hire a quality banker and team with those you have established a deep relationship with that is built on trust and who is fully transparent with you during the entire process.

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I get it that you are convinced that going public is best for your company. Everyone wants to invest in a company built to last. So, are you truly ready to share your intimate relationship with your share price with the public?

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