Should You Opt for an IPO?

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

The prospect of going public in an initial public offering (IPO) has a certain romantic allure among many entrepreneurs and business owners. Some of the most famous companies in America made headline news when their shares were first offered for sale to the public, and IPOs of popular companies continue to make the business and financial news headlines. For example, just look at all the media attention that was devoted to the recent IPO of Snap, Inc., the parent company of social media startup Snapchat.

However, there's a lot more that goes into the decision of going public than just dreams of fame and instant riches. While an IPO could result in lots of attention for your business and a cash windfall, it will also subject your company to a level of pressure you've probably never experienced before once you become accountable to public shareholders and "The Street." Therefore, you should weigh a variety of different factors as you consider whether going public is the right move for your company.

Pros and Cons of an IPO

Here are some of the pros and cons of going public. First, the potential benefits:

Rapid company growth. An IPO is perhaps the best way to raise lots of growth capital fast. This money can be used to fund the launch of new products and services, expansion into new markets, hiring of more employees, and additional research and development. With direct access to the capital markets, you may also be able to raise additional capital later in a subsequent stock offering.

The ability to offer stock options to employees. Many highly skilled employees — especially in the technology industry — want to work for public companies where they can participate in equity ownership. Going public might put you in a better position to attract and retain such top-notch and in-demand employees.

An easier time for owners and executives to sell shares. Owners of closely held businesses cannot easily sell shares when they're ready to exit the business. But it's easy for owners and executives to liquidate shares of a publicly traded company. This benefit may also apply to your heirs if they need to sell shares to pay estate taxes after you die.

Personal financial rewards. Let's not forget to mention the fact that a successful IPO can make owners very wealthy, very quickly. Of course, this wealth only exists on paper — but if the company enjoys long-term success, entrepreneurs can accumulate vastly more wealth as owners of public companies than they usually can as owners of privately held businesses.

Now, the potential drawbacks:

More pressure. As noted above, there's a whole different level of performance expectations and pressure associated with running a public company that owners of privately held firms don't have to deal with. You will also be required to communicate regularly with shareholders and explain your decisions, for better or for worse.

Higher costs. Public companies face a wide range of expenses and fees associated with public reporting and meeting SEC requirements. In addition, of course, you'll be selling a big chunk of ownership in your business to the public — this is a hidden "cost" that many entrepreneurs don't think about when deciding to go public.

Less control. As the owner of a private company, you are mostly free to run the business however you choose and make your own decisions. Once you go public, you will be accountable to your shareholders, brokerage firms and a wide variety of other stakeholders, thus limiting your control over the company.

Three More Questions to Consider

As you weigh these pros and cons, here are a few additional questions to consider as you decide whether to go public:

1. **How strong are your company's earnings?** Wall Street investors generally look for companies with steady and predictable current earnings. In addition, they want to see businesses with strong potential for future earnings growth.

2. **How deep is your management team?** Investors also prefer companies with a deep, talented and experienced executive management team. Preferably, your managers will have lots of experience in your industry.

3. **What is your company's competitive position?** For example, what is your unique selling proposition (USP)? Without strong and profitable customer niches, it will be difficult to meet investors' expectations for future revenue and earnings growth.

Concluding Thoughts

The prospect of going public in an IPO has a certain romantic allure, but there's a lot more that goes into the decision than just dreams of fame and instant riches. An IPO will subject your company to a level of pressure you've probably never experienced before once you become accountable to public shareholders and "The Street." Therefore, you should carefully weigh the pros and cons before making a final decision. An outsourced CFO services provider can help you decide whether an IPO is right for your company and, if your decision is to move forward with an IPO, assist in the successful completion of one.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.