Chapter 12

PUBLIC OFFERINGS

INTRODUCTION

An initial public offering (IPO) is a strategic option for raising new capital. It can also raise capital to replace bank debt, provide an exit strategy for angel investors and venture capitalists, increase a company's value, and provide liquidity to a company's owner. Going public is not the right option for every company and is only right for companies at a certain stage in their growth.

In this chapter we will discuss what it means to go public, the advantages and disadvantages, securities regulation, the mechanics of an initial public offering (IPO), the IPO road show, securities pricing, and how to tell whether a company is ready for a public offering.

We will also discuss the importance of being listed on a stock exchange, listing requirements for the major exchanges, market makers, that is the actual broker dealers who trade in a company's stock in secondary markets, and the importance of getting analysts to cover a company. Finally, we will discuss delisting a company and why a company would go private and how that affects the owners and shareholders.

THE DECISION TO GO PUBLIC

Whether going public is a good or bad choice for a company depends on a number of factors including the objectives of the owners and investors. Some owners simply want to raise large blocks of capital in the most efficient way. Others want to increase the liquidity of their investment so they can cash out small blocks of stock, reaping the rewards of their effort. Venture capitalists, angel investors and other investors may want to exit their investment altogether.

Another set of factors to be considered are the cost of going public, the cost of complying with securities regulations once the company goes public, and whether the company is ready to go public.

Advantages

The major advantages to going public are:

- Access to larger capital markets - NYSE, AMEX, NASDAQ, and region exchanges such as the Philadelphia Stock Exchange.
- Greater liquidity - Smaller slices of the company can be bought and sold, with the result that there will be many more potential buyers and sellers.
- Stock price changes more continuously because there will be more buyers and sellers, which will lead to a more stable company value.
- Broker dealers can make a market in the stock.
- Restrictions on sale of stock are removed.
- Greater transparency - Public disclosure of operations through required reporting increases the value of individual shares.
- Public companies that trade on national exchanges are exempt from state regulation.