GOING PUBLIC

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Many businessmen think that going public will solve all of their financial problems and will produce an unlimited source of funds. What they may not realize is that once the decision is made to sell shares to the public, there will be implications for most of the company's operations. The following is a discussion of the advantages and disadvantages of going public, followed by a list of some of the factors which may be considered by underwriters in assessing whether a company is suitable for an initial public offering, an IPO.

Possible Advantages of Going Public

1. Raising Capital: The main reason a company would consider going public is the ability to raise funds for working capital or for a particular acquisition or project. Once the company has completed an IPO, there will be other opportunities to raise funds in the public market.

2. Providing Liquidity for Shareholders: Once the shares of the company are trading on a public market, the shareholders will hold shares that they can more readily sell or use as collateral for loans (subject to any hold periods or escrow requirements imposed by securities legislation or the stock exchange on which the company is listed).

3. Ascertaining Value of Company: Once a company is public it is easier to ascertain the value of the company or its assets.

4. Using Shares instead of Cash or Debt: Shares can be used by public companies as payment for acquisitions of other businesses. This can improve the debt/equity ratio of the company.

5. Providing Incentives to Employees: Share incentives offered to employees have more value as the shares are more liquid and can be valued more easily.

6. Improving Prestige and Value of Company: As a result of press releases and public disclosure of financial statements and the trading of the shares, the company will become known by the investors, the press and the general public.

Possible Disadvantages of Going Public

1. Continuous Disclosure Obligations: Once a company has sold shares to members of the public there is a loss of privacy. There are many disclosure requirements with respect to financial statements, issuances of shares, stock options, declaration of dividends and certain other information about what key individuals are paid. In addition, if there are certain material changes in the company, these must also be disclosed.

2. Pressure for Short Term Performance: The short term performance of the company will become more important to the shareholders and the financial community, while management of the company would prefer to focus on long term results. Alternatively, the market may even be indifferent to the performance of the company and not react at all to significant changes in the operations of the company.

3. Costs of Going Public: The costs of going public are significant and include fees paid to brokers, lawyers, accountants, transfer agents and the stock exchange. In addition there will be on-going requirements for continuous disclosure, as the company will need on-going legal, accounting and transfer agent services.

4. Limitations on Officers: Management of the company must obtain the approval of the board of directors where there are certain major decisions to be made or where there is a conflict of interest. In addition, as required by corporate law or the stock exchange, certain matters must be decided by the shareholders.

5. Potential Loss of Control: Overtime, the entrepreneur who started the company may lose control of the company as more investors buy shares of the company or as shares of the company are issued to others where an acquisition occurs.

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6. Increased Fiduciary Duties: Directors and officers of public companies are subject to increased fiduciary duties and responsibilities.

Assessing Chances of Success of IFO

The pros and cons listed above must be carefully considered before deciding to go public. Once the decision has been made to go public, it is necessary to find a broker or underwriter who will be prepared to sell the offering. As brokers are paid primarily on a commission, they are only compensated if the offering is a success. This means that they will only undertake issues where they are reasonably confident that the issue will sell. Management of the company should evaluate the above factors and the criteria set out below before making the very significant commitment of time and money to go public. The criteria set out below are only a partial list of items to be considered:

1. History of Growth and Potential for Growth: A strong history of growth as well as potential for growth can be useful in a public offering. In particular, the potential for growth will be more important as in the prospectus, the company must set out the proposed use of the funds to be raised.

2. Proprietary Advantages: Proprietary advantages such as patents, technology and trademarks can allow a corporation to protect the earning stream for a period of time.

3. Strong Earnings: A past history of profits is beneficial in an initial public offering, however it is more important to have strong management and potential for future growth.

4. Tangible Net Assets: It is helpful to have tangible assets. Other types of assets such as goodwill, deferred research and development costs will not be as valued by investors.

5. Barriers to Entry: Often barriers to entry will be beneficial as competition is unable to enter markets with strong barriers to entry so a company may be able to maintain an existing level of profits.

6. Management Team: The management team can be very important both to the initial public offering and to the ongoing success of the corporation. The board of directors of the corporation will also be required to have public company exposure.

There can be many other criteria that may be taken into account in determining the success of an initial public offering.

Conclusion

Field Atkinson Perraton has experience with several types of initial public offerings on different stock exchanges as well as assisting companies in fund raising through private placements in various provinces. As the above information is very general in nature, we would be pleased to meet with you to discuss your particular situation. ▲

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