Time to go public? Here's what you should consider

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If investment bankers are calling with increased frequency, it may be time to consider taking your private company public.

Investment bankers "are in the unique position of knowing what the sense of the market is and also understanding the sense of your company," said Richard Heddleson, who was involved with three IPOs in the 1990s.

Another time to consider making the transition to publicly traded company is when investors on the board start to advise doing so, Heddleson said.

Generally, companies attempting to do an IPO are either looking for funding to expand or are preparing for the exit of founders or venture capitalists, according to Tim Pollock, a Penn State professor who researches IPOs.

"I think some companies have regretted doing it as quickly as they did," Pollock said.

Some businesspeople get greedy, thinking the company is worth more than it is, or they try to squeeze every penny out of an IPO instead of taking a longer view, Pollock said.

Because the costs associated with going public are high, Heddleson said, company leaders should consider whether that is the best choice for them. He said they may want to explore the mergers-and-acquisitions market or what can be done through existing investments.

Valuation

Pollock, a Ferrell professor of entrepreneurship, said stocks priced too high at first can lead to questions when values tank — a situation that led to Facebook being criticized. Plummeting values also can open up the possibility of lawsuits from investors.

It may be better to plan for higher prices during a potential second offering, so buzz can build beforehand, Pollock said.

Heddleson is now director of business development for the southcentral field office of the Ben Franklin TechCelerator, where he works in "transformations" for companies that need assistance with issues such as human resources, legal consulting or marketing.

Heddleson said the Sarbanes-Oxley Act of 2002 changed the IPO process dramatically, because it forces more internal controls and requires significant overhead.

"Nevertheless, I think there is a tendency for people to re-evaluate their net worth based on an IPO," Heddleson said.

Broader board

One year ahead of an anticipated IPO, a business should start to make itself look public by doing things such as placing more outsiders on the board of directors. The board should not comprise only founders or early investors, Pollock said.

Pollock said considerations during the transition period include:

• financial costs;

• distractions, particularly those faced by the senior executive team, who will have less time to run the company;

• declining focus on day-to-day operations;

• increased turnover.

Professional support

Heddleson said it is important to get administrative paperwork in order prior to the IPO.

“You don't generate a lot of earnings by keeping excellent records, but in order to go public, you really need to keep your records in excellent shape,” he said, saying the numbers for the next quarter need to be well in hand.

The offering firm and underwriter will each have its own counsel in place; the company involved should have an in-house attorney working on the project, too, Pollock said.

Professionals involved in the process have fairly standard fees, so it is important to choose those with a good fit and after-market support, he said.

Heddleson said the accountants, lawyers, consultants and investment bankers are good resources, but executives need to stay on top of them to ensure the company's best interests are foremost.

“No single transaction stands alone,” he said. “It's all part of the greater process.”

The market really fluctuates from hot to cold in its acceptance of IPOs, and it does not necessarily mirror general conditions, Pollock said.

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