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IPO (Initial Public Offering)

Initial public offering represents the moment in the companies life when the company transforms from private to public. For better understanding of these two terms let's define them first in simplest way possible. Private companies are defined as the entity that can issue shares and that can be for investors or employees but are not listed at any major stock exchange and they don't provide their shares publicly. Public companies are listed at stock exchange markets and provide their shares, which now become stocks, to anyone who has any kind of interest and money to buy them.

So now we can ask ourselves a question, why would anyone who worked hard and put a lot of effort, money, time and energy in building their own company wants to go from 100 % of ownership to 50 % or 30 %. The main reason is money, and lots of it. Sometimes prestige can be also reason, but that is case in very big and strong companies that have high revenue, experience, history, brand, name, market, customers and etc. Many companies in their life circle find themselves in positions where they have great plan and strategy for future growth but they don't have enough money. They can get money in several different ways, they can take loan from the bank, but through the years they will need to return it plus interest, they can also loan money from their friends, or save money or the fastest way is IPO. And in IPO you don't need to return any amount of money to anyone, unless you decide to pay dividends. So IPO can be very good 'booster" for future goals and plans. Sometimes we can gather more money than we expected like in case of Facebook where they got 14 billion instead of 5 like they expected. With this extra money company can expand their business but not only that, they can also increase quality of products and services, improve technology, improve marketing, sales and etc.

The next step that we need to define and who is connected with IPO is process of IPO. Initial public offering has few stages. First stage is to define are we actually ready for the IPO? Can we survive IPO? Are we mature enough as a company, are we at that level where IPO will not be our dead-end but our boost? Also we must compare our strengths and weaknesses of the company and see are we interested enough for investors to invest in our company.

After that we need to hire a underwriter, there is high supply of underwriters on market and we can choose from Goldman Sachs to J.P Morgan. Of course they will do this for a fee of few million dollars. The whole process of underwriting is lead by the lead underwriter called book runner, and they usually connect big investors with big banks. Underwriter will sell stocks of our company to investors for us and also will guarantee to us that all stocks that will be left on stock market will be bought by them. The third step is to file to the Security and Exchange Commission. You need to send file called “prospectus”. That is basically main information about company and it would supposed to be interesting enough to attract investors because investors read prospectus and based on that they decide to invest or not to invest. Next phase is “roadshow”. This is step where we go all over the country in order to represent our company even before IPO. We will speak in front of the ordinary people, not big investors, about our company, tradition, products, experiences, future plans, strategies and growth. They will ask us questions, and how good we are able to sell our company even before IPO that much our IPO will be successful. After that we need to meet with our underwriters one more time to price our IPO. Based on the demand for our IPO we define price and number of stocks we want to send on stock market. Usually underwriters create that kind of price that can increase on IPO for about 15 %, and that is reward for our investors who invested in our company. And the final stage is going to New York Stock Exchange or NASDAQ or any other stock exchange in World and ring the ball and your IPO can official start. Then you can sit in your beach house and watch will price of your stocks goes up or down.

So far who we could conclude that IPO doesn’t have many disadvantages and that is almost perfect. But of course like nothing in real World is perfect so IPO have some disadvantages. *First* it’s expensive. Advisory firm PwC says the average firm incurs $3.7 million in costs for the IPO, on top of the 5-7% underwriters’ fees. Then it costs $1.5 million a year just to be a public company and manage all the legal and regulatory requirements. *Second* you lose control. When you’re running a private company, you can do more or less what you want, as long as it’s legal. When you go public, you have to answer to shareholders. You have to keep generating bigger and bigger profits each quarter to satisfy them, and you have to justify all your strategic decisions to skeptical analysts. Your shareholders have voting power, too, so they can go against your judgments. *Third* your stock gets diluted. In an IPO, you’re selling off part of your company. The influx of money is nice, but the cost is that your own share of the company, and of future profits, is smaller. And *fourth* the P stands for public! Most of us like keeping things private. Imagine if you had to post your bank statements, pay stubs and credit-card statements on the Internet for everyone to look at. That’s what life is like for public companies. Everything is available for scrutiny, and sometimes that can involve giving information away to your competitors.

And we can conclude at the end that going public is a great way for a company to raise money from a huge pool of investors, money that it can then use to finance growth and expansion. It’s a costly and complex process, and dilutes the original owners’ control of the company, and that’s why some firms avoid it altogether. But if done right, it can provide the financing to take a business to a whole new level.

An IPO can also be a great chance for you as an investor to get in on the ground floor with an exciting new company and make big profits. Or it can be an opportunity for you to lose your shirt. With IPOs, as with all forms of investing, it’s important that you make decisions based on numbers rather than hype, and try as hard as possible to leave your emotions behind before hitting the “Buy” button.