

Are you ready to go public?

Management issue paper

The availability of capital through the public markets — for financing expansion, purchasing new entities or even personal estate planning — can be very tempting for business owners. But while newspaper stories regularly highlight successful initial public offerings, “going public “ isn’t for everyone.

If you’re seriously considering taking your company public, you must first examine your organization closely to determine if it has the attributes necessary for success. And, you should be aware of, and willing to accept, the costs — both financial and otherwise.

A clear vision and plan

When you go public you are selling your company and your vision of what it can be. The presentation of that vision in a clear, thoughtful manner will greatly enhance the potential investor’s decision-making process. Be sure you answer questions like, “How do you plan to achieve your vision? How do you plan to capitalize on market opportunities? “You will need a comprehensive business plan supported by marketing information that identifies the market you are in, its future potential and the competition.

An appropriate management team

Investors will want to know who is on the team and what strengths they bring to the company. Are you and your team capable of growing and implementing the plans you have laid out?

A strong board of directors

Do your board members bring experience and sound business sense to your company? Do they understand your industry and can they bring ideas and experience to your company? It is important to have a solid group of people who represent a varied business background and who will offer good advice for you and your management team.

Appropriate legal structure

Many owner-managed companies have been set-up to give you the best personal tax structure and this may not be the best legal structure for a public vehicle. There is often a need to restructure a company when planning to go public.

Good earning history

The story you are telling and selling to the public is best supported by a good history of earnings. Your earnings should represent a good return on sales and on assets employed and the longer the period of earnings the better.

In some owner-managed companies historical earnings have been adjusted each year to give the best possible tax situation for the owners and it may be necessary to restate those earnings to reflect plans for the future. Earnings in the past may have been affected by the cost of carrying redundant or other quasi-personal assets and any restatement of the historical earnings should reflect adjustments for these items.

Good tangible asset backing

Do your company's tangible assets support your plans for continuous earnings growth? If your company has a number of intangible assets such as goodwill, deferred costs or development costs, these may be discounted when the company is valued for possible sale in the public market. In addition, if your company has assets that are not used in the business or are quasi-personal assets, it will be necessary to dispose of them before shares are offered to the public.

Appropriate accounting and information systems

The requirements for listed companies to report both financial and other activities on a timely basis mean that your financial and information systems must be adequate. You may have to upgrade your systems to meet these stringent reporting requirements.

Proven product

Your company should have a product that has a proven market acceptance that can form the basis for the business plan and for the future plans of the business. Your knowledge of the markets and the position of your product in those markets will be tested by potential investors.

A receptive market

You should seek advice from experts in the market to give you an unbiased assessment of the market's likely reception of your issue. Take into consideration whether or not there have been recent issues in your industry or in comparable industries that will support your efforts to go public. Without a receptive market, your issue will not succeed.

Financial costs

Determining that your business has the attributes necessary for a successful public offering is not enough. You must ask yourself if you're willing to absorb the substantial costs involved.

Along with the obvious costs such as legal, accounting, audit fees and printing costs, there are also listing and registration fees and out-of-pocket selling costs. Normally these may represent 1.5 to 4 per cent of the total issue value, depending on the complexities and the amount of money involved.

Underwriting fees will vary between 5 and 15 per cent of the issue and there will be additional costs if restructuring is required.

Once the company is listed, there are annual costs for reporting and filing.

The hidden costs

A great deal of management time is required to prepare a public offering. This can result in lost opportunities in other areas while management focuses on the offering. The cost of lost opportunities is hard to quantify.

Another major cost in going public is the loss of privacy that a private company

enjoys. Publication of annual information including salaries paid to senior people can be a major concern to some.

There will also be a loss of flexibility as you will need to report all major transactions and gain board of directors approval for major decisions.

Lastly, the potential loss of control must be considered. The initial issue may not include more than 50 per cent of the shares of the company. However, subsequent offering may reduce your ability to hold a controlling interest.

The “going public process “ offers successful companies a new source of capital that can be the vehicle for continued growth. The question is, “Is it right for your business? “ If you would like to explore this possibility, your Grant Thornton adviser can bring an objective perspective to the deliberations. If the decision is to proceed, your adviser can then guide your organization through every step in the process.

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