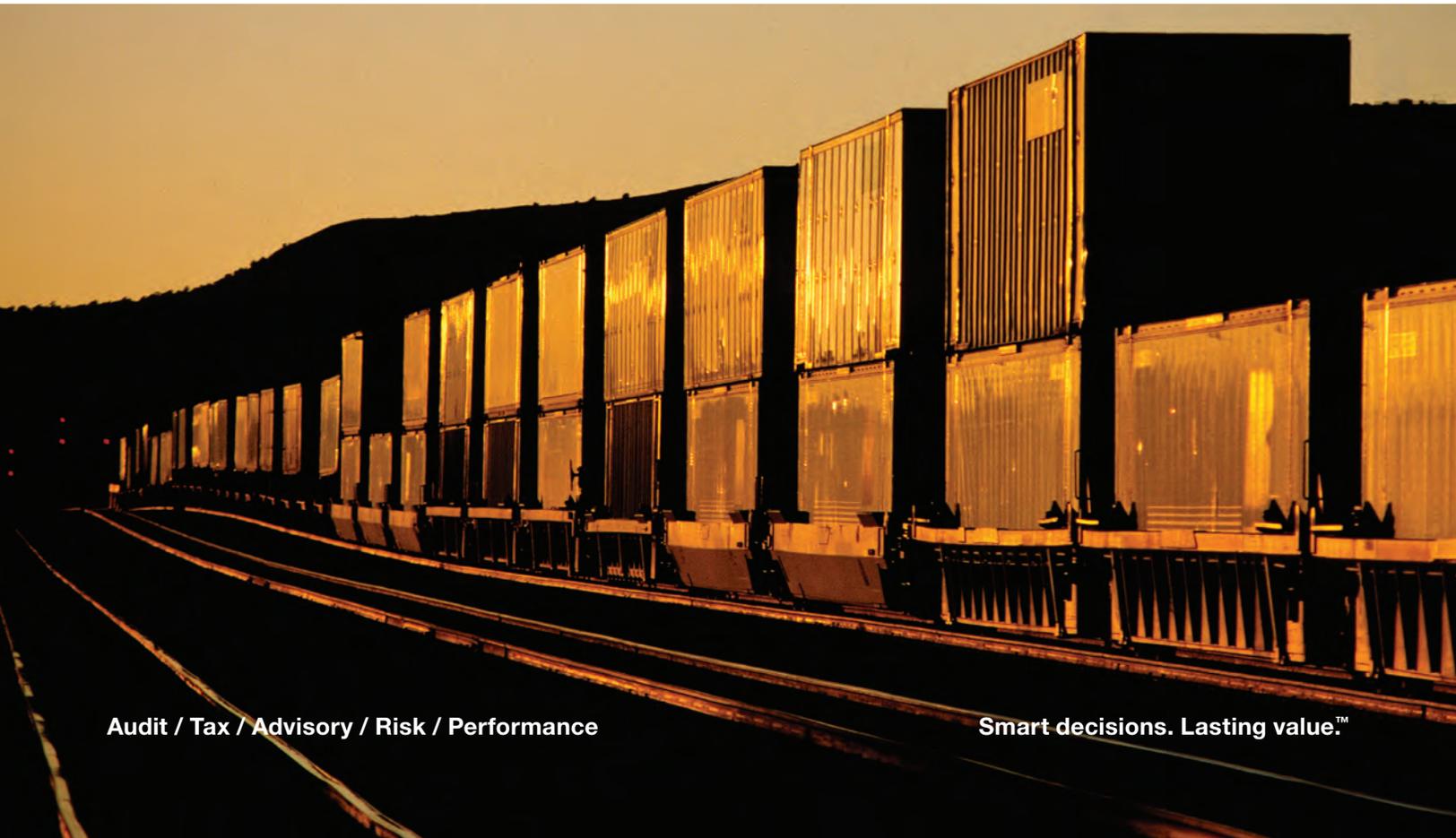


July 2017

Considering an IPO? It May Be a Realistic Option

An article by Simon Little, CPA, CISA, CTP, and R. Michael Varney, CPA, CIA



The current focus on reducing regulatory burdens for organizations that are publicly listed is making going public with an initial public offering (IPO) a more realistic transition option for business owners today than it was in the past. While certainly one of the most complex business ownership transition paths, the payoff resulting from taking a company public through an IPO can be significant.

Going public may be a more suitable option for businesses whose current management prefers not to implement an employee stock ownership plan (ESOP) program. It also may be a good fit for a situation in which sale to a third party, such as a private equity firm, does not make sense, because the business may be too large for any one company or organization in the industry to acquire it.

Business owners have a major financial incentive to consider taking a company public through an IPO; once it goes public and is listed on an exchange in the United States, a company has access to some of the largest capital markets in the world, and the capital comes at a much lower cost than in the private marketplace.

Before deciding to go public, business owners should consider if these upsides outweigh the additional regulatory requirements, public reporting requirements, and more that go into an IPO.

Why Now May Be the Time

The IPO market is seeing a resurgence in activity after a downturn in 2016, which was hailed as the worst year for IPOs since 2009, during the U.S. financial crisis. The year 2016 saw only 105 IPOs in the United States, which was the fewest since 2009 and a decrease from 170 in 2015. Dollar volume of IPOs was \$18.8 billion in 2016, which was the lowest since 2003 and a decrease from \$30 billion in 2015.¹

In recent years, companies in the technology sector, including software engineering and integration companies, have led a growing number of businesses into the public markets.² Spurred by a growing economy, more and more companies from a variety of industries are looking to go public. And due in part to recent regulatory changes and proposals made by the Trump administration and Congress, business owners today may have even more reasons to consider going public.

The Reducing Regulation and Controlling Regulatory Costs executive order, signed by the president in January 2017, mandates that any U.S. executive agency may not issue a new regulation unless it also identifies two regulations for repeal that cost as much as the new one. This is a clear sign that easing of regulations could be seen across industries.

In addition, the *Financial Choice Act* (Choice Act), passed by the House of Representatives in June 2017, would reform current *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank) legislation, including changes to companies' reporting requirements and compliance burdens. Under the current legislation, any organization worth more than \$75 million has more reporting requirements than those companies worth less than \$75 million, including additional auditor assessments of their internal controls and other compliance burdens. Under the Choice Act, that threshold would be raised to \$250 million. Organizations residing in the \$75 million to \$250 million space that were perhaps hesitant about going public because of the additional regulatory requirements under Dodd-Frank may have more incentive to go public if the proposed legislation is finalized and passed.

In general, the new administration is trending toward promoting more IPOs within the United States. Business owners should keep up to date with changes to – or elimination of – existing regulations that may encourage companies to go public.

Know What's Involved With IPOs

While deciding to take a company public through an IPO clearly has financial advantages, the process still involves a great number of regulatory requirements as well as increased financial reporting and accounting, which take a lot of time and work. The Securities and Exchange Commission mandates various corporate governance, financial statement, and disclosure requirements. In addition, all public companies in the United States must comply with the testing and documentation requirements in Section 404 of the *Sarbanes-Oxley Act*, or SOX 404, as it is commonly known.

To meet these legal and regulatory requirements, publicly traded companies must establish solid internal controls and financial reporting procedures and regularly document, test, and maintain those controls and procedures. Businesses considering going public also should know about significant staff and technology capabilities that must be in place to do so successfully.

Additional accounting obligations such as developing prospectus financial statements prior to filing and meeting the quarterly and annual financial reporting requirements of the SEC should be considered. Public companies also must set up a board of directors to provide oversight.

Don't Underestimate the Complexity

Despite eased governmental regulations, much is still involved with transitioning from a private company to a publicly traded one. Business owners looking to transition ownership by going public through an IPO must decide if the financial benefits outweigh the additional requirements.

But no organization has to go through the IPO process alone: Working with qualified professionals can help business owners understand the tasks and procedures involved with going public, including all the necessary regulations, requirements, and internal controls. Careful research and consideration are paramount when deciding whether to take a company public through an IPO, and during the IPO process, should the company decide to officially go public.

Learn More

Simon Little
+1 214 777 5235
simon.little@crowehorwath.com

Mike Varney
Partner
+1 216 623 7553
mike.varney@crowehorwath.com

¹ Dan Weil, "2017 Is Going to Witness a Rebound in the IPO Market," Business Insider, Feb. 13, 2017, <http://www.businessinsider.com/2017-is-going-to-witness-a-rebound-in-the-ipo-market-2017-2>

² Corrie Driebusch and Maureen Farrell, "The IPO Market Is Finally Looking Up Again," The Wall Street Journal, Oct. 25, 2016, <https://www.wsj.com/articles/tech-shares-give-ipo-market-some-pep-1477398601>