Pros and Cons: Going Public

Going public, selling shares of stock to the public, is one of the most important events in a company’s life. The new capital raised in a successful public offering can dramatically increase a company’s potential for growth, supplying funds for technology, research, new product development, construction, expansion into new markets, and acquisitions. On the other hand, these benefits are not without costs, most importantly in the form of a loss of control over the business. Here is a list of pros and cons to consider in determining whether to go public.

**PROS**

- By going public, the company will improve its financial condition by obtaining money that does not have to be repaid.
- Stock in the company can be used in part to finance acquisitions of other companies (i.e. part of the purchase price can be paid in stock).
- Company stock in the form of stock options can be offered to employees and contractors as a meaningful form of incentive compensation.
- The public market for the company’s shares provides an irrefutable valuation of the company on a daily basis.
- The company obtains increased prestige and visibility.
- Shareholders of the company benefit from holding shares that are, subject to certain restrictions, freely marketable and usable as collateral for loans.
- Shares that are publicly traded generally command higher prices than shares that are not publicly traded.
- Shareholders are able to diversify their investment portfolios, due to the increased marketability of their shares.
- Management in publicly held companies is generally compensated at a higher level than management of private companies.
- Management personnel upgrade their experience and employability by virtue of having served in responsible executive positions in a publicly held company.

**CONS**

- When a company goes public, management loses some of its freedom to act without board approval and approval of a majority of the shareholders in certain matters.
- Shareholders tend to judge management in terms of profits, dividends and stock prices. This can cause management to emphasize short-term strategies rather than long-term goals.
- The cost of an initial public offering is substantial, in the form of underwriter’s commissions and expenses, legal and accounting fees, printing costs, and registration fees.
- When a company becomes publicly held, the SEC requires it to reveal sensitive information on an ongoing basis, including business strategies, financial results, and executive salaries and compensation arrangements.
- The company is required to have its financial statements audited on a regular basis.
- As a public company, the company will have continuing costs for periodic reports and proxy statements that are filed with the regulatory agencies and distributed to the shareholders.
- A substantial portion of management time must be dedicated to initial and ongoing reporting requirements of regulatory agencies rather than to management of the company’s operations.
- Management and accounting information systems often must be upgraded.
• Management's marketability of shares is partially constrained by prohibitions on insider trading, prohibitions on short-sales and classification of their shares as restricted securities.

• Control of the company, as well as management positions, can be taken away from existing management if a dissident investor or group of investors obtains majority control.
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