When Is The Best Time TO Take Your Company Public?

CEO’s often call and ask me what the revenues and net profit should be before going public, they seem to think that there is a magic number that qualifies a private company into becoming a public company.

There is no set amount of revenues or net profit that is required to take your company public, then when is the absolute best time to go public?

The short answer would be when you don’t need to, or your company is not desperately looking for financing in order to survive.

Instead you are looking for capital in order to finance growth and expansion, or you would like to use the public shares as currency to make acquisitions.

But life isn’t always perfect, so we will take a look at a few questions asked by CEO’s that have called me looking to go public.

What should revenues and net profit be before going public? A company could conceivably have 5 consecutive year of profitability and be a bad candidate for going public.

I recently had a CEO called me from such a company, the revenues and net profit were identical for the previous five years but robust compare to many of the companies you see going public in the NASDAQ BB and Pink Sheets today.

But I didn’t see any growth in either revenues or net profit nor any indication that there was going to be some in the future, the CEO did not know where future growth would come from.

I told him that if he was just going public so that he could tell friends that he was the CEO of public company then he shouldn’t go public.

But if he could develop a strategy for growth and put together a business plan outlining how he was going to grow revenues and net income, he could become an outstanding candidate for going public.

The opposite of that would be a company that has been losing money for 5 years but is exhibiting growth in revenues every year and the losses are smaller.

This company has a business plan and targets for business expansion and every year is meeting those targets, and going public is part of the business strategy. So you tell me which company has the greater potential of being a successful public company?

Investors are always looking for growth candidates to put their money in to. So they will go with the company that has the potential to make them the most money in the future.

Another situation that I often come across is CEO’s who want to go public and don’t have any money for the audit or the legal fees.

There are certain expenses associated with going public that need to be paid. These CEO’s often want to do a reverse merger because it’s the fastest way to go public, but Public Shells are expensive and could be the costliest avenue use to go public.

When a private company purchases a Public Shell, the purchaser must perform a thorough due diligence of the Public Shell to make sure that it is clean and not bringing any past legal problem to the private company.

The due diligence process often get neglected because the private company is not familiar with the ins and outs of the public arena.

So they often take the advised given by the shell owner and submit to his demands. When companies rush to go public they often live to regret it, short cuts can be very expensive. I always give CEO’s who call me the alternative to reverse merger, such as Direct public offering, Regulation D or IPO but if their minds are already made up or they may have already purchased the Shell without doing proper due diligence.

I will do all I can to try and make it work but the CEO must be warn of the perils ahead and how to prepare for them. For example if he does have a lot of shareholders and a lot of shares outstanding he must reverse split the shares to reduce the number of shares available for sale including those own by the Shell owner.

The Shell owner will often require the private company to sign an agreement not to reverse the share prior to the sale, if they agree to this demand they will be making a big mistake.

Also if the company hires an investors relation firm to do PR work and pays them in stock they will see a temporary interest in the company’s shares while the IR is dumping their share.

An IR firm must be carefully and thoroughly check out by asking for names of previous and present client, just pull up chart of their clients stock and see if you detect a sudden rise in the share price and a quick drop once they began dumping their shares.

There isn’t such a thing as a perfect time to go public and if you start preparing early you will be ahead of the curve, start by having your financials audited. This is something that will have to be done and so if you do as you go along you wont have the big expense all at once.

Have a business plan prepared and that is a mirror of your vision and strategy, you will not stick to a business plan that does not reflect your ideal and your vision of what is going to work.

Make sure the business plan is sound and also flexible, it must allowed for a change in direction when one is warranted. A business plan is like a road map, it has a starting point an a destination, you mapped out the way you want to go but sometimes you must take and different route to get there.

Make sure you have capable competent people in the right positions a small company is not the place for specialist, you must have people who can multi task or you will be force to hire more employees than necessary.

Remember nobody know your business like you do but there are certain business principles that that must be adhere to, as well as ethical conduct that must be applied.

If you just follow the golden rule “Do unto others and you would have them to unto you” you will have done your part. Because you always reap what you sow.

You must be wise in selecting the people you deal with. There are a lot of unscrupulous character in the shell and consulting business who will sell you on going public even if you are not ready.

They will also sell you a Corporate Shell and anything else they can, and before you know you will be calling a legitimate consultant to help you but it may be too late.

I recently had a phone call from a CEO who had a nice small company but he need capital to finance the growth in the business, the company was growing every quarter but was trading for pennies because it had over 150,000,000 shares outstanding.

I suggested that he needed to do a reverse split before I could go to my financing people, because nobody will put money into a company that is so diluted. He replied that he couldn’t reverse the shares do to an agreement with the shell owner.

When you buy a shell make sure you are buying the entire flow and that the shares in the hands of the public is not substantial.

Otherwise choose an alternative way of going public. Reverse Merger is not the only way to go public.

Reverse Merger may be the least desirable option for some people, So before taking any action look into the other options available. If the consultant you hire only know Reverse Merger maybe its time to look for somebody else. There isn’t a perfect time to take your company public, it must be part of your over all business strategy and vision, and it requires a desire to make work.

If you are ready to take your company to the next level or have any question do not hesitate to email me joe@genesiscorporateadvisors.com or visit our website: www.genesiscorporateadvisors.com

About the author:
Joseph Quinones is President and founder of Genesis Corporate Advisors, prior to that he was President and founder of JDQ financial Group, Inc. a full service broker dealer which Mr. Quinones proceeded to build up from a one man operation to the point where it employed many traders, and advised numerous clients while generating millions in revenues.