



Why Go Public?: The \$100 Million Question

Executive Summary

Entrepreneurs seeking capital to monetize and maximize enterprise value have always faced a pivotal choice: either sell out or go public. Once upon a time in America, the default choice for a venture capitalist or entrepreneur worth his salt was straightforward: go for the IPO. In the last decade or so, however, the IPO has now become the exception rather than the rule. This turnaround has profoundly adverse implications for American jobs, growth and ultimately competitiveness. The stakes couldn't be higher. This white paper will argue that the benefits of going public—especially for smaller companies—vastly outweigh the costs and can represent as much as \$100 million or more in foregone value for a typical small company.

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The U.S. Economy Needs More IPOs

Grant Thornton experts David Weild and Edward Kim report that “a U.S. economy with an abundance of venture capital should have produced over 500 IPOs every single year for each of the last four years—that, however, is not the reality.” Let’s assume that, under healthy conditions, the number of public companies in the United States should grow at the same rate as GDP. This is a conservative estimate: In continental Europe, Canada, and the BRIC economies, the growth in the number of public companies has *outstripped* growth in GDP over the past two decades. However, in the United States the number and growth relative to GDP growth has actually *declined* every year since 1997. “The Great Depression in Listings” has caused American public companies to get bought, close down, or “go private” faster than they can be replaced. There are now only approximately 5,000 companies trading on senior exchanges¹ in America today, compared to 8,000 in 1996. In fact, the number of exchange listed companies in the U.S. has fallen 22.2% since 1991, equivalent to a 52.8% decline when adjusted for GDP growth.²

To realize their full potential, tomorrow’s industry giants need access to public capital today, an advantage they would lack as private companies or appendages of established firms. According to the National Venture Capital Association (NVCA), an astonishing 92% of job growth since 1970 in the surveyed companies occurred *after they went public*.³ Because fewer companies are going public, Grant Thornton estimates that the U.S. economy has failed to generate between 11.6 and 22.7 million new jobs since 1996.⁴ Ouch!

The Long, Slow Decline of the American IPO

Taking a company public has historically been the ultimate benchmark of success for the American entrepreneur. Unfortunately, however, the market for small IPOs in the U.S. has collapsed over the last decade. Simply put, emerging companies are increasingly shying away from public offerings, and in the process they sell themselves short, often acutely so, to the tune of tens or even hundreds of millions of dollars.

This paper attempts to go well beyond the typical qualitative description of the characteristics that make a company a strong candidate to go public (e.g. strong management team, good market position, eight quarters of profitability, etc.) and instead takes a deep look at the quantitative characteristics of all companies traded on Nasdaq.

Since the end of the 1995-2000 dot-com bubble, the number of IPOs in the United States has fallen off a cliff. The bubble was certainly an aberration but since its collapse the IPO market hasn’t even come close to returning to its pre-bubble norms. There was an average of 520 U.S. IPOs annually during the pre-bubble years of 1991 through 1995, compared to a paltry 126 per year for the post-bubble period of 2001 through 2009. But while the number of IPOs has collapsed, the typical deal size has grown exponentially. Almost 72% of all U.S. IPOs raised less than \$50 million in the five-year pre-bubble period versus about 20% (adjusted for inflation)⁵ in the post-bubble period. Those companies that *do* manage to make it to a public offering must wait longer than ever to get there:

¹ We define a “senior exchange” as: the New York Stock Exchange (NYSE), the Nasdaq (Global, Global Select, or Capital Market), or NYSE Amex Equities (formerly known as the American Stock Exchange).

² Weild, David and Edward Kim. “A wake-up call for America.” Grant Thornton: *Capital Markets Series*. Nov. 2009.

³ “NVCA Global Insight Survey of Top 136 VC-Based Companies That Went Public 1975 – 2005.”

⁴ Weild and Kim, “A wake-up call,” p. 26.

⁵ Weild, David and Edward Kim. “Market structure is causing the IPO crisis – and more.” Grant Thornton: *Capital Market Series*. June 2010, p. 10.

the average age of a company at the time of its IPO has more than doubled over the last decade, from 4.5 years in 1998⁶ to 9.6 years in 2008.⁷

There are two main causes for this IPO implosion:

1. **Structural causes.** Changes to market structure have undermined support for small IPOs. A 2010 report by Grant Thornton suggests that regulatory and technological developments have combined to make small-cap equities unattractive to pre-IPO investors, underwriters, and equity analysts. These developments include: new regulatory disincentives to sell-side equity research, especially Eliot Spitzer's Global Research Settlement;⁸ the disintermediation of traditional brokerages by online trading and fee-based asset gatherers;⁹ and the ascendancy of high-volume, algorithmic trading strategies which heighten volatility in all stocks.
2. **Perception.** In 2002, in response to the Enron accounting scandal and others, Congress passed the now infamous Sarbanes-Oxley Act (SOX), introducing significantly stricter reporting requirements for public companies. The overwhelming share of the compliance burden comes as the result of Section 404, a notorious provision which mandates costly and time-consuming audits of internal controls over financial reporting. Under SOX Section 404(a) all public companies are required to assess the effectiveness of their internal control over financial reporting, and Section 404(b) requires the company's independent auditors to report on management's assessment.

Although the true cost of SOX is greatly overstated, the legislation nevertheless helped to smother an already suffering IPO marketplace because it is perceived as a forbidding barrier to going public. Rumors of multimillion dollar compliance costs spread throughout the venture capital community and sent small companies in search of other sources of growth capital and exits.

Notwithstanding these difficulties, companies large and small understand the *promise* of going public and would like to do so if it didn't seem so daunting. William Hambrecht of W.R. Hambrecht & Co. recently estimated there are between 4,000 and 5,000 "small but robust growth companies" *in Silicon Valley alone* that would *like* to list their shares publicly.¹⁰ Survey data supports this: An NVCA study of venture-backed companies indicated that 46% of them would *prefer* their investors to exit by way of a public offering. However, just 19% considered this possibility "likely."¹¹

⁶ Doll, Dixon and Mark Heesen. "NVCA 4-Pillar Plan to Restore Liquidity in the U.S. Venture Capital Industry." National Venture Capital Association. April 29/30, 2009, p. 7.

⁷ Dow Jones Venturesource. "Q2 2010 U.S. Venture-Backed Liquidity." July 1, 2010. Accessed Aug. 5, 2010 from: <http://www.dowjones.com/pressroom/SMPRs/PM/2Q10USLiquidity.html>. Data averaged with that from Q1 2010, accessed from: <http://www.dowjones.com/pressroom/SMPRs/PM/1Q10USLiquidity.html>.

⁸ Prior to the Global Research Settlement, IPO underwriters' own equity research analysts would be intimately involved in the IPO process, providing critical research coverage in the aftermarket and helping to ensure the liquidity of the stocks in question. They were in turn compensated by the investment bank in proportion to how well the stock sold. This naturally created undesirable conflicts-of-interest. The so-called "Spitzer Accords" banned underwriters from compensating their researchers in this way. The new rules had the unintended consequence of driving equity research analysts away from investment banks and toward "buy side" firms such as hedge funds, where they would no longer share their information with the general public. As a result, equity research declined across the board, but especially so for illiquid, small-cap stocks which have little appeal to high-volume buy-side traders.

⁹ The rise of fee-based discount and electronic brokerages effectively destroyed the old commission-based brokering model. As a consequence, brokers no longer had an incentive to perform equity research on behalf of their clients. This caused research coverage to further decrease, and contributed to increasing volatility in the markets. Decimalization contributed to the elimination of large trading spreads for major Wall Street players, necessitating that they trade larger and larger volumes of stock in order to make money.

¹⁰ Zweig, Jason. "The Demise of the IPO—and Ideas on How to Revive It." *The Wall Street Journal*, June 25, 2010.

¹¹ Doll and Heesen: p. 24.

Why the Pessimism about Going Public?

And exactly *why* are entrepreneurs so pessimistic about going public? The NVCA survey sheds light on their apprehensions. The top “barriers to going public” can be broadly lumped into three objections:

1. Sarbanes-Oxley Section 404 compliance costs.
2. Aftermarket volatility and liquidity issues.¹²
3. M&A seen as a better alternative.

The consensus opinion in Silicon Valley, succinctly summed up by Erick Schonfeld of *TechCrunch*, is as follows: “The cost [of going public] is just too high and the benefits are just too low for most companies these days.”¹³ But do these fears correspond with reality? Let’s examine each issue in turn.

The Decline and Fall of SOX Compliance Costs

SOX 404 compliance costs may have been extreme *for larger issuers immediately after the adoption of SOX in 2002*, but for smaller issuers, complying with SOX 404 does not and has never imposed an “unbearable” burden.

- **Myth:** It costs a small company in excess of \$1 million annually to meet Section 404’s audit requirements.
- **Reality:** A recent study of Section 404 compliance by SOX experts Lord & Benoit sheds light on the true compliance burden of Sarbanes-Oxley on small public firms, and concluded:

“The total average cost of complying with both SOX Section 404(a) and Section 404(b) amounted to **\$78,474**...The average market capitalization of [the companies studied] as of December 14, 2007 was \$24,702,000. The average revenue of the companies in this study was \$9,702,000. **The average cost...in this study was 0.3% of market capitalization and 0.8% of revenues.**” (Emphasis added).¹⁴

Furthermore, the Sarbanes-Oxley burden is lightening. Grant Thornton reports that the average cost in terms of man-hours and compliance fees devoted to Section 404 has diminished substantially since 2002 and should continue to do so.¹⁵ In the eight years since the Act’s passage, an industry dedicated to Sarbanes-Oxley compliance has proliferated and significantly reduced the average cost to publicly reporting firms. Hefty consulting and audit fees have given way to automated software and compliance “kits,” making SOX a more manageable problem for companies than ever before.

Uplifting as they may be, *these developments have now been rendered wholly irrelevant to small companies* by the recent Dodd-Frank Wall Street Reform and Consumer Protection Act (2010), which *permanently exempts* publicly reporting companies with a public float below \$75 million from the auditor attestation requirements under Section 404(b) of Sarbanes-Oxley. Although smaller reporting companies are still required to disclose management’s assessment of its internal control over financial reporting, this permanent exemption from the auditor attestation requirement is a significant victory for small public companies and for the future prospects of small business capital

¹² The study asked firms to indicate their “top three” concerns about going public. Specifically, 74 respondents indicated increased volatility in the public markets (#2) and 53 indicated other aftermarket considerations, especially problems with analyst coverage (#4).

¹³ Schonfeld, Erick. “The Poor, Pilloried Tech IPO.” *TechCrunch*, June 19, 2010.

¹⁴ Benoit, Bob. “The Sarbanes-Oxley Investment: A Section 404 Cost Study for Smaller Public Companies.” *The Lord & Benoit Report*. January 9, 2008.

¹⁵ Weild and Kim, “A wake-up call,” p. 19.

formation in the U.S. Furthermore, the Act requires the SEC to study ways to reduce the burdens of compliance with Section 404(b) on companies with \$75 million to \$250 million in market capitalization. Let's hope this is only the beginning of much-needed small business regulatory reform.

Aftermarket Support

In a 2007 *Wall Street Journal* op-ed piece, Bob Grady, then-Chairman of the NVCA, blames "...the combination of the absolute abandonment of small cap research and market-making by underwriting firms, and radically higher costs for small cap issuing companies" for closing the equity markets to small firms.¹⁶

We've demonstrated that the "radically higher costs" for small issuers are irrelevant myths. But do smaller issuers face other barriers when it comes to securing research coverage and generating liquidity in their stock?

Any public company requires aftermarket support in order to reap the full benefits of having its stock traded on a senior exchange. Grady alleges that aftermarket support has dried up for small cap stocks, making IPOs unattractive for small companies. But does this view hold up to the facts?

In another Keating Investments white paper (*Aftermarket Support: How to Create a Liquid Public Stock*), we examine in detail the core characteristics of a liquid stock, namely:

- **Widely held.** Is the stock owned by a large number of diverse parties, or do a few large investors own most of the shares? How much institutional ownership exists?
- **Actively traded.** Is there liquidity in the stock? Is it easy for a potential seller to find a willing buyer at or near the desired price? Can an institution acquire, or dispose of, a reasonably sized position without dramatically affecting the stock price?
- **Fully valued.** Based on the company's fundamentals, is the stock trading in line with its public peer group?
- **Analyst coverage.** Is there at least one equity research analyst to conduct research and provide information to the investing public about the stock?

Based on our review of the 2,524 stocks trading on Nasdaq as of July 9, 2010,¹⁷ we discovered the following:

- The median market capitalization of all Nasdaq stocks is \$178 million; 10% have a market capitalization less than \$21 million.
- The median revenue of all Nasdaq stocks is \$123 million; 10% have revenue less than \$10 million.
- The median price-to-sales ratio of all Nasdaq stocks is 1.48; 10% have a price-to-sales ratio below 0.28.

¹⁶ Grady, Robert. "The Sarbox Monster." *The Wall Street Journal*. April 26, 2007.

¹⁷ Source: Capital IQ. Our review consisted of all public operating companies currently trading common stock on one of the three Nasdaq exchanges. Companies for which data was incomplete or unavailable were excluded from our analysis. Also excluded were American Depository Receipts (ADRs), which are stocks in foreign companies, traded on U.S. exchanges. A total of 67 companies were removed.

- The median Average Daily Trading Volume (ADTV)¹⁸ of all Nasdaq stocks is 0.47; 10% have an ADTV below 0.10%.
- 26% of all Nasdaq stocks have no analysts, 13% have just a single analyst and 61% have two or more. The median number of analysts is three.

While we encourage readers to read the entire study, our conclusion regarding aftermarket support is as follows: any public company unfortunate enough to be in the bottom quintile of Nasdaq stocks is likely to have tiny revenue, a correspondingly low market capitalization and valuation, limited trading volume and, more than likely, no analyst coverage.

But while we generally support many of Grady's bigger picture themes, we believe he is nonetheless guilty of the fallacy *post hoc, ergo propter hoc* (after this, therefore because of this). Specifically, he cites data that is really only descriptive of bottom quintile companies to characterize the entire Nasdaq market.

Eating Our Young: The Tragically Deceptive Allure of M&A

Barring a public offering, where else can a young company go to finance its growth? The venture capital industry was long the guardian angel of growing firms, and historically launched many businesses down the road to long-term success in the public markets. But private equity funding for small companies has become a Faustian bargain: nowadays the majority of VC-backed enterprises are acquired long before their prime.

VCs today by and large eschew IPOs as an exit strategy, seeing M&A as the “only viable” option. During the 1990s, 56% of VC-backed companies successfully completed public offerings, but by the 2000s, that number had dwindled to just 13%, with the other 87% exiting through M&A.¹⁹

Weild and Kim rightfully liken the acceleration in acquisitions to “eating our young.” It has disastrous implications for companies, for job creation, and for American competitiveness. It's tragic, especially because going public is in fact well within reach for profitable companies that can support a public market capitalization of at least \$50 million, which on the Nasdaq would place them comfortably in the second quintile.

Why Go Public Now?

Entrepreneurs may see the benefit of going public but may not think the time is right. Certainly, pursuing an IPO is a big step to take for any firm and requires a careful weighing of the facts and the company's readiness. Unfortunately, misinformation abounds about the qualifications for becoming publicly traded. Promising firms must especially not fall victim to the misconception that they are too small or vulnerable to the tides of the market to be public-ready.

Your Revenue is Low Enough

Contrary to popular belief, the median Nasdaq company does not have a billion dollars or more in annual revenue. In fact, the median Nasdaq company generated just \$123 million in revenue in the trailing twelve months.²⁰ Moving down the scale, revenue falls off rapidly: for the same period, the

¹⁸ Average daily trading volume is defined as number of shares traded daily divided by the number of shares outstanding, averaged over the preceding twelve months.

¹⁹ Doll and Heesen: p. 5.

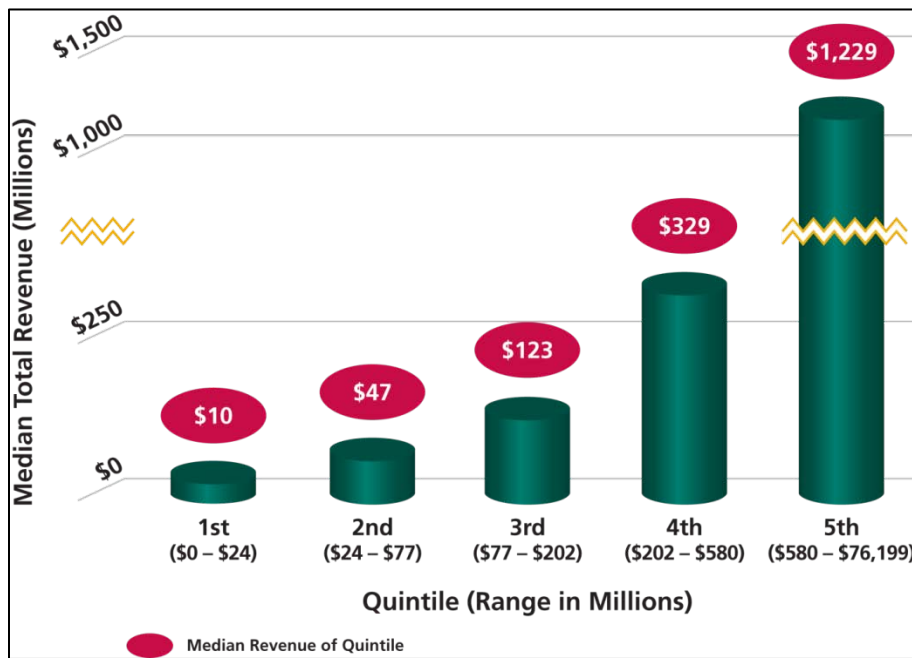
²⁰As of July 9, 2010.

bottom quintile had revenue of \$25 million or less; 9.8%, or 254 companies, had revenue below \$10 million.

That is not to say that the bottom quintile of Nasdaq is a good place to be. Quite the contrary. Companies in this category generally have little or no revenue, limited if any profitability, limited liquidity and usually no analyst coverage. Companies in the lowest quintile should certainly aspire to climb to the highest; in order to achieve this, they must generate strong top and bottom line growth.

The illusion that large revenue is necessary for access to a senior exchange is perpetuated by the presence of a very small number of extremely large public companies. While 80% of Nasdaq companies had total revenue under \$580 million in 2010, the top 10% of listed firms had *between \$1.2 billion and \$76.2 billion*. A dramatically stratified, top-heavy roster of companies gives a false impression of the revenue requirements for success and wrongly convinces smaller companies that going public is for giants only. **Figure 1** below provides a detailed breakdown of Nasdaq companies by total revenue.

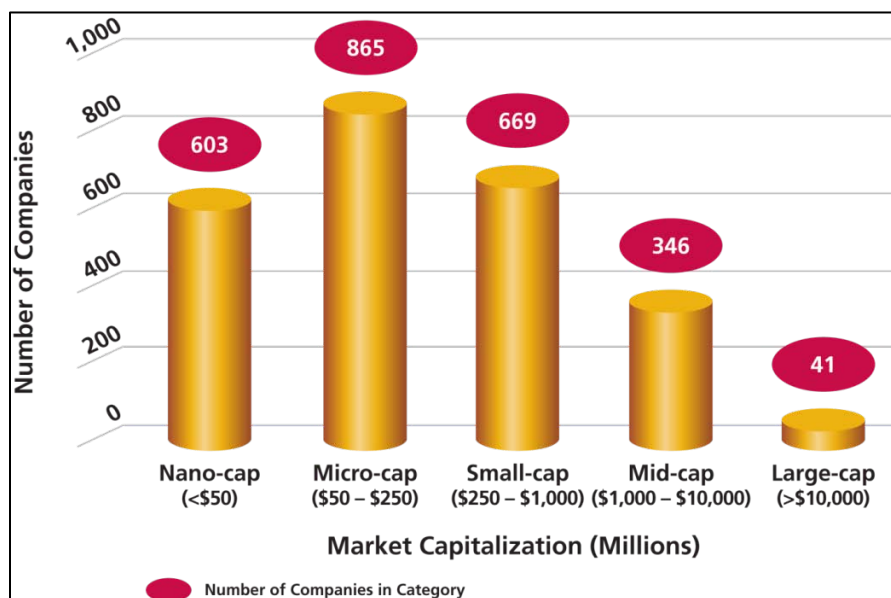
Figure 1: Median Total Revenue of Nasdaq Listed Companies by Quintile



Your Enterprise Value is Small Enough

Contrary to popular belief, the median Nasdaq company does not have a billion dollars or more in market capitalization. Although the *mean* market cap of Nasdaq companies was \$1.3 billion, the *median* market capitalization was only \$178 million. Astonishingly, 40% of all Nasdaq companies had a market cap of under \$114 million, and 10% of Nasdaq listed companies had market capitalizations worth *\$21 million or less*. In fact, 85% of companies listed on Nasdaq had market caps less than \$1 billion. **Figure 2** on the next page shows a distribution of Nasdaq companies by market capitalization.

Figure 2: Nasdaq Listed Companies by Market Capitalization

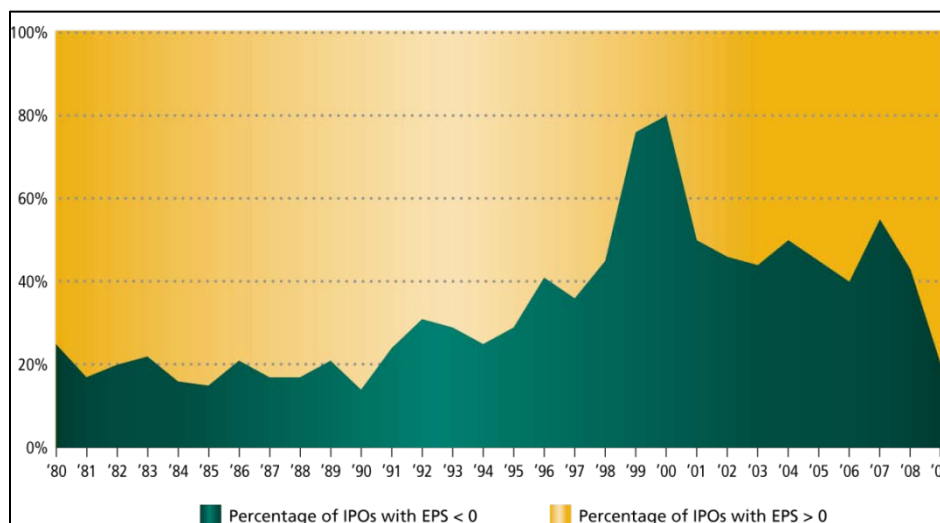


Of the 2,524 listed companies, 1,468 (58%) are micro-caps or smaller. Numerically, small issuers dominate Nasdaq. The notion that a company needs to be huge in order to obtain a public exchange listing is simply wrong.

You are Unprofitable Enough

Contrary to popular belief, the median Nasdaq company is not highly profitable. In fact, the median net income for all Nasdaq companies is a measly \$2.9 million, and readers will be shocked to learn that 41% of Nasdaq companies are actually unprofitable. This is partly because many successful companies decide to raise public capital when they are young. In fact, between 1980 and 2009, 36% of the 7,456 companies that went public were loss-making at the time of their IPOs. **Figure 3** below illustrates this.

Figure 3: IPOs with Negative EPS, 1980 - 2009²¹



²¹ Source: Jay Ritter, "Some Factoids About the 2009 IPO Market," April 2010, <http://bear.cba.ufl.edu/ritter/ipodata.htm>.

The adage that a company must be profitable for eight consecutive quarters before going public is an old wives' tale and nothing more. In the real world, current negative earnings are not an impediment to going public.

The Economy is Weak Enough

Contrary to popular belief, it is possible to go public and thrive in a recession. Even in downturns, going public gives small companies a unique financial advantage over their peers, giving them the chance to spring ahead in the recovery. Numerous public giants were in fact founded or first listed their stock during recessions, including: FedEx, Microsoft, Dell, Cisco, Starbucks, Whole Foods and Adobe.

In Sum: The Time is Wrong Enough

Contrary to popular belief, time is your enemy not your friend. It can be a fool's errand to wait for the stars to align perfectly before attempting to go public. In former Intel CEO Andy Grove's book, *Only the Paranoid Survive*, he describes fretting over product screw ups, manufacturing glitches, and other issues that typically worry CEOs. But Grove reserves his biggest warning for corporate leaders at risk of missing signs that indicate their companies may be at "strategic inflection points":

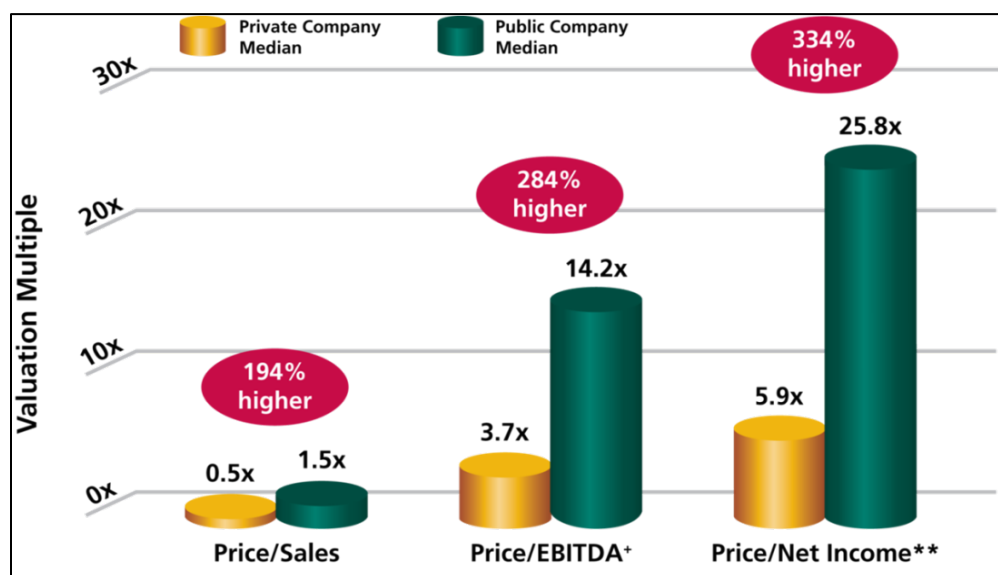
Strategic inflection points can be caused by technological change but they are more than technological change. They can be caused by competitors but they are more than just competition. They are full-scale changes in the way business is conducted, so that simply adopting new technology or fighting the competition as you used to may be insufficient. They build up force so insidiously that you may have a hard time even putting a finger on what has changed, yet you know that something has. Let's not mince words: A strategic inflection point can be deadly when unattended to. Companies that begin a decline as a result of its changes rarely recover their previous greatness.²²

As an issuer at a strategic inflection point, can you afford to delay the decision to go public and raise capital and thereby risk missing an opportunity for potential greatness? While you wait for eight quarters of profitability before going public, you may cede your market position to a competitor who uses the public option to become better capitalized and get to market ahead of you.

The Upside: The Public Liquidity Premium

Investors will always pay more for an asset in its most liquid form. Liquidity is so important in capital markets that investors generally attach a valuation premium of 100% or more for publicly traded companies compared to private companies with the same financial metrics. In the parlance of corporate finance, this valuation premium results in a "lower cost of capital" for public issuers. The "liquidity premium" (see **Figure 4** on the next page) exists because investors value the ability to sell stock quickly, whether in fact they do sell or not.

²² Grove, Andrew S. *Only the Paranoid Survive: How to Identify and Exploit the Crisis Points that Challenge Every Business*. Doubleday: 1999. Accessed from <http://www.intel.com/pressroom/kits/bios/grove/paranoid.htm>.

Figure 4: The Private-Public Valuation Differential²³

The valuation differential between similar small private and public companies is breathtakingly large. This becomes clear if we examine the data from recent M&A transactions under \$100 million. Over the period between 2004 and 2009, median public companies had price-to-sales ratios that were on average 194% higher than the median price-to-sales ratios of similar private companies. The median public price-to-cash flow ratio (using EBITDA as a proxy for cash flow) was 284% higher than its private equivalent. And the median price-to-net income ratio for public companies was 334% higher than for private companies. In addition to higher valuations, the other principal benefits that public companies enjoy include:

- Creation of a stock currency to fund acquisitions, which enables management to seize opportunities nimbly.
- Liquidity for investors and minority stockholders, which also allows management to monetize the results of their hard work and sweat equity.
- Equity-based compensation for management and employees, which provides other stakeholders with the opportunity to directly participate in upside of the company's stock.
- A foundation for providing superior access to capital for future financing activities, which ensures that the company is built to last and prosper through all economic cycles, however volatile.

Dollarizing the Benefits

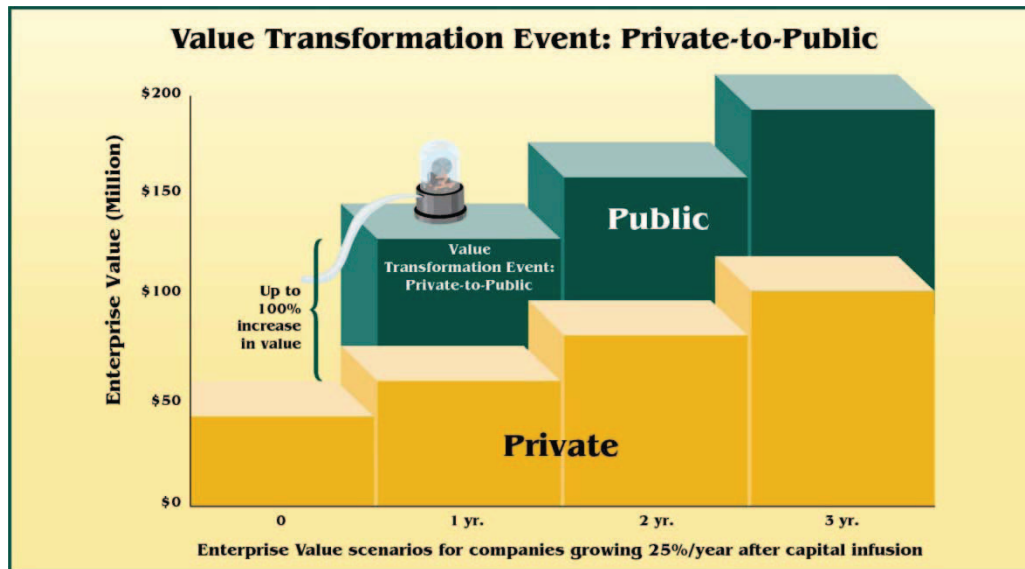
Using the valuation differential data from above, let's consider the simple example of a company with \$50 million in sales. We assume that the company is valued at 1x sales, giving it a private enterprise value of \$50 million. We further assume that with an injection of capital this company is able to grow its sales (and earnings) at 25% per year for the next three years. At the end of the three-year period, and assuming it remained private, the company would have a terminal value of \$100 million [$\$50 \text{ million} \times 25\% \text{ growth per year} \times 3 \text{ years}$] at 1x sales.

²³ Source: Pratt's Stats® at BVMarketData.com, Public Stats™ at BVMarketData.com as of May 14, 2010, for transactions between January 1, 2005 and December 31, 2009. Used with permission from Business Valuation Resources, LLC. Valuation based on 6,000+ private and public company transactions under \$100 million. Keating Investments, LLC calculations based on those companies having positive net income and EBITDA; valuation data based on private and public company transactions under \$100 million.

Now let's consider the same company, but this time let's assume that at the end of the first year it goes public. Instead of the 194% greater valuation that **Figure 4** suggests it will enjoy over its private company equivalent, let's assume more conservatively that it is worth only 100% more. At the end of the same three-year period, the public company would have a terminal value of \$200 million [$\$50 \text{ million} \times 25\% \text{ growth per year} \times 3 \text{ years} \times 100\%$ "liquidity premium" by virtue of being public] at 2x sales.

The value differential at the end of the three-year period: a cool \$100 million. That's right, \$100 million. See **Figure 5** below for an illustration of this value transformation event.

Figure 5: Private-to-Public Value Transformation



So now let's revisit those Sarbanes-Oxley and other going public costs and put them in perspective. Even if at the exaggerated estimates of \$1 to \$2 million in total, which are extremely unlikely for a company with \$50 to \$100 million in revenue, such costs would be a fraction of the incremental \$100 million increase in shareholder value that would result from going public.

Benefits Beyond the Bottom Line

The public equity markets represent a vast, untapped financial resource for private companies with strong fundamentals, but there are other less tangible benefits to going public, including:

- **Improved financial position.** Going public is critical for any business seeking to preserve its first-mover advantage by virtue of a strengthened balance sheet.
- **Better image.** Public ownership improves the firm's credibility. In Deloitte's view, simply being public "provides business partners, such as suppliers, distributors, and customers with more information and can be an indication that your company is a business of substance. Prospective suppliers and customers may feel more secure about entering into a relationship with your company. You may also be perceived as a more attractive partner in a joint venture..."²⁴
- **Higher profile.** Going public gives employers heightened visibility and added incentives to improve the recruitment, productivity, morale, and retention of key personnel. Stock

²⁴ Ibid.

options and other forms of compensation can be attractive alternatives to pay raises; perhaps more importantly, they link employee performance to the success of the firm as a whole. Personnel owning equity in their firm will be more inclined to help the business attain its longer-term goals.

Conclusion: Outstanding Small Companies Can, Should, and Must Go Public

Small companies with proven success and big ambitions have three basic choices:

1. Stay private and attempt to finance growth through a combination of internally generated cash flow and owner-guaranteed debt. However, a company following this course may be undercapitalized and miss big opportunities at critical inflection points in its development. The outcome can be tragic.
2. Stay private and either seek private equity financing or sell the business altogether. Either way, this option is more of a sell-out rather than a sale. The entrepreneur's years of blood, sweat and tears shed in building the business may be betrayed by a cheap sale to a financial sponsor who may capture the ultimate enterprise value by eventually taking the company public on its own.
3. Go public. Yes, there will be higher costs and burdens associated with going and being public; but there will also be enormous rewards: management can retain control, and for a company with \$50 million in sales, may pick up a cool \$100 million in extra value along the way.

If we look to the landmark success stories of the last decades, it is clear that companies generate the greater portion of their value after they have gone public; hence, the wisest firms do so early. For an entrepreneur who senses that his firm could become the next Intel, Google, Cisco, or Starbucks, going public is the only sensible way to raise growth capital. If he doesn't, he sells himself short and leaves a lot of value on the table—for the other guy.

About Keating Investments:

Keating Investments, LLC is a Denver-based SEC registered investment adviser founded in 1997 and is the investment adviser to Keating Capital, Inc. (www.KeatingCapital.com). Keating Capital is a business development company that specializes in making pre-IPO investments in innovative, high growth private companies that are committed to becoming public. Keating Capital provides individual investors with the ability to participate in a unique fund that invests in a private company's late stage, pre-IPO financing round — an opportunity that has historically been reserved for institutional investors.

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Timothy J. Keating is the founder and President of Keating Investments. Previously, he held senior management positions in the equity and equity derivative departments of Bear Stearns, Nomura and Kidder, Peabody in both London and New York. He is a 1985 *cum laude* graduate of Harvard College with an A.B. in economics. He can be reached at (720) 889-0131 or at tk@keatinginvestments.com.