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Why More Businesses Are Choosing To Stay Private

Patrick Galleher Forbes Councils Member
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POST WRITTEN BY

Patrick Galleher

Patrick Galleher is the Managing Partner for **Boxwood Partners**, a merchant bank in Richmond, Virginia, where he leads sell-side transactions.

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It used to be that going public was the pot of gold at the end of the rainbow for many businesses. Entrepreneurs would dream of ringing the bell to open trading on the floor of the New York Stock Exchange. Wanting to take your business public is still an trend among companies to stay private.

I’ve been on both sides and have worked with many businesses during this process. As such, I have some insight into this trend and would like to shed some light on what is making so many businesses shy away from the public markets.

Fewer businesses are interested in going public.

You might have seen the number thrown around that the number of publicly listed companies dropped by 52% from the late 1990s to 2016. Despite this precipitous drop, the entrepreneurial spirit around the world has never been stronger. The Global Entrepreneurship Index (a measurement based on how attractive an economic environment is to entrepreneurs) lists the United States as No. 1 in the world.

People are obviously interested in starting businesses. They just don’t necessarily want to take them public. Why would that be? Among the reasons companies don’t want to deal with the hassles of going public are the increased regulations required of publicly traded companies. Chief among these are increasingly stringent regulations by the Securities and Exchange Commission (SEC) that most businesses would rather avoid.

Furthermore, by staying private, a company isn’t putting itself anywhere near the same level of risk as it would with an initial public offering, or IPO. Even though an IPO can be an effective way for companies to access large sums of capital, it can be an expensive endeavor that can easily spell doom for a business if unsuccessful. There are plenty of recent examples that can speak to the hazards of an IPO. The WeWork IPO debacle is but one illustration of what can happen when going public goes wrong.

Private equity is cutting in on public companies.

By comparison, the strength and wherewithal of private equity continue to grow. This has made private equity a realistic option for many middle-market companies. Where going public used to be a primary option for middle-market businesses, private equity now provides many of these same benefits with fewer drawbacks.

alone. By comparison, IPOs brought in $50.3 billion. With so much money at stake and far fewer hassles, it should come as no surprise that more private companies are choosing to go with the private equity option.

Staying private keeps businesses in control and on task.

Another reason a company would choose to stay private is to exercise greater control over their business. By staying private, a business can remain in the hands of a few select people or families. Private companies are also not beholden to the whims of shareholders.

Private companies are not subject to the volatility and capriciousness that comes with being publicly traded. While the ups and downs of the stock market are an accepted cost of doing business for many investors, they can quickly become a distraction for the business itself.

This is especially true in cases where many employees are shareholders themselves. Without the need to worry about what the stock is doing and what that might mean for an employee's finances, employees are free to focus on their jobs, rather than the numbers.

The decision is different for every business.

At the end of the day, the decision as to whether a company should go public or stay private is entirely down to the company itself. There are plenty of examples on both sides that have worked well. Having a successful IPO can be an incredible way for businesses to raise the money they need to expand quickly. However, going public isn't cheap, and it opens a company up to a level of regulation some people would just as soon avoid.

Regardless of what a business decides is right for them, it's important to note that now, more than ever, both options are perfectly viable for companies that are so inclined. It's up to you to decide if an IPO is the light at the end of the tunnel for your business, or if it's the bright light you see during a near-death experience.

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