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Mid-size firms like their privacy, thank you

Unwanted attention makes going public undesirable

By Matthew Quinn

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News Flash: Most private companies in the U.S. aren't itching to go public. And while the popular argument on Wall Street and in Washington is to paint the American regulatory environment as the main culprit in keeping companies off U.S. stock exchanges, the companies themselves say they have other worries, namely having to answer to shareholders and disclose how they do business.

Fifty-five percent of the more than 500 middle-market respondents to a survey out today by finance company CIT Group said they had no plans to go public. Only 12% said they had plans to go public, while the remainder already have.

But when questioned as to why going public wasn't in the cards, only 25% cited regulatory requirements such as compliance with the Sarbanes-Oxley Act as a primary obstacle. By far the most notable reason for staying private was retaining control and flexibility in decision-making, which over 70% of respondents cited. The second most common reason, cited by 30%, was the desire to avoid disclosing financial information.

"To the ownership of most privately held companies, Sarbanes-Oxley is probably more of a bad joke rather than something they know a lot of details about," said Peter Iannone, a director with CBIZ Accounting Tax & Advisory Services.

To mid-size firms, which often may lack the clout to control pricing or exercise pricing power, guarding trade secrets is particularly important. "For middle-market companies, margins tend to be tighter, and they're typically good at one or two things," Mr. Iannone said.

Also, going public hasn't been so necessary, thanks to what has until recently been an easy credit market. Said Walter Owens, president of CIT's corporate finance group, "Given all the liquidity, they haven't had to look to the public."

The desire to stay private gives credence to a major argument supporting the slew of buyouts in recent years—that going private allows management to focus on long-term goals rather than meeting Wall Street's quarterly earnings expectations.

Mid-size companies, defined as those with revenue between $25 million and $1 billion, are typically faced with greater earnings volatility than their larger counterparts, making the prospect of quarterly earnings even more unsavory, particularly in the face of an economic downturn.

"Small mistakes in strategy can lead to big mistakes in the bottom line," said Mr. Owens. "The velocity with which [these] companies can improve or deteriorate means owners need to have flexibility to react. Reporting would make it tough on many companies to follow a long-term strategy."

The public markets have traditionally offered an exit strategy for entrepreneurs, but, increasingly, they have cashed out through the booming private equity business, at least in part.

In selling a stake to a private equity firm, an owner "doesn't need to relinquish control," explained Mr. Iannone. "More and more [owners] are willing to give up some control, but not their competitive advantage or right to run the company the way they see fit."

Outside the need for a capital infusion that can't be found in other ways, the incentives to list are limited, if non-existent, for mid-size companies. Bill Wexler, managing director of consultancy BBK, said, "If I were running a business today and I had a choice, I'd stay private." **FW**