

## Five reasons investors shouldn't swear off IPOs

Written by The Conversation

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With the recent share price woes of law firms [Slater & Gordon](#) and [Shine](#) , as well as the [collapse of Dick Smith](#) , investors [have become wary](#) of initial public offerings.

But listing shouldn't be getting such a bad rap. Assuming the business is developed enough to list, there are quite a few upsides, particularly for smaller investors. Here are just five.

### 1) Increased credibility and detection of wrongdoing

Listed firms are subject to greater oversight and scrutiny. In Australia, this comes from the [ASX continuous disclosure obligations](#) . These require firms to promptly disclose information that could impact the share price.

Even though both listed and unlisted firms are [subject to disclosure obligations](#) , observing poor disclosure is easier for listed firms. Listed firms must make continuous disclosures, including publicly available, audited, financial reports.

[The ruling in one court case](#) , in which directors had relied on auditors' reports without examining the financial data themselves, directors were found to be responsible for accurate information in these reports. They cannot shirk this responsibility.

It's also easier to take actions against listed firms. ASIC is more prone to investigate disclosure violations of, and class actions are easier to launch against, listed firms.

Both of these are made easier because of easily identifiable disclosure violations. For class actions in particular, a drop in a company's share price is a loss that is easily quantifiable and provable in court. This, in turn, makes it easier to find funding for a class action.

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Class actions [can harm CEO careers](#) as well as diminish their compensation. These personal consequences should deter false and misleading conduct. Indeed, it is *because*

of these disclosures that shareholders could discover the [alleged disclosure problems at Slater & Gordon](#)

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## 2) Improved corporate governance

Listing forces businesses to improve corporate governance in ways that unlisted companies aren't exposed to. This manifests in several ways:

**Board composition:** The ASX has governance guidelines that [suggest](#) firms have a majority independent board, nominating committee, and audit committee, in addition to an independent chairperson. Listed businesses must comply or [explain why not](#)

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**Compensation:** With publicly traded stock it is easier to [pay executives with equity or with share options](#). This aligns their incentives with those of other shareholders.

**Activist investors:** Publicly traded companies are more likely to have active investors - major investors who scrutinise and lobby for changes in companies. This can force businesses to reform governance, improve performance and increase corporate value. Recently, activist investing has come to prominence in Australia with Elliott Associates [pushing BHP to make changes](#)

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## 3) Better access to capital

Listed companies can expand and grow easier than their unlisted counterparts. This is because bidders can pay for acquisitions by using either cash or stock. Facebook, for example, [bought Whatsapp using mostly its own shares](#)

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According to data from SDC Platinum, the majority of large takeovers involve bidders exchanging their stock for that of the target. These “stock for stock” bids are more difficult for unlisted companies due to the challenges of valuing an unlisted bidder’s stock, and the unwillingness of target shareholders to take illiquid, unlisted, equity.

Cash acquisitions are also easier for listed companies because they have better access to debt. This is because lenders have more confidence in listed firms’ governance arrangements and such firms are more transparent. This, in turn, enables firms to expand. For example, AT&T’s bid for Time Warner involves [significant debt](#) .

If the firm faces challenges, it can also enable firms to recapitalise: For example, ANZ [recently issued new shares](#) in order to meet additional regulatory requirements.

### 4) Improved visibility and credibility with customers and suppliers

Listing on a stock exchange can also increase credibility with customers and suppliers. This can make it easier to find opportunities and otherwise do business.

But research also shows that customers and suppliers [respond negatively](#) when listed companies violate their expectations. This can result in higher costs and less sales.

Unlisted firms, on the other hand, receive less attention than those that are listed.

### 5) Liquidity itself can create value

Lastly, listing on a stock exchange and having shares that can easily be bought and sold can itself create value. Studies show it raises the price a bidder will pay relative to an unlisted firm [by 15-30%](#)

From a shareholder’s perspective, selling shares in a listed company is easy. You just need a broker. For larger shareholders, they can retain a bank to algorithmically trade their order so as

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to minimise the risk that their large trade will drop the share price of a company. This type of trading is impossible for an unlisted company.

All up there are many benefits of listing. They accrue to shareholders in general, and smaller shareholders in particular. These are some of the reasons why law firms like Slater & Gordon should list, despite recent problematic performance.

*Mark Humphery-Jenner receives funding from the Australian Research Council*

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