Video Transcript: "What is an IPO?"
https://youtu.be/l4HMCr5roAM

Speaker 1: [00:00:00] [MUSIC] As the saying goes, ideas are a dime a dozen. Acting on an idea though, can make all the difference. Say you turn your vision into a start up, it starts small, then it gets even bigger, then it gets even bigger, until one day you may get to decide it's time for your company to go public.

IPO stands for initial public offering. It's the very first sale of a stock issued by a company on the public market, which essentially means you're turning your private company into a public one. When it's private, a company is normally owned by a small number of investors. That usually consists of people like you, your friends or parents, plus professional investors like a venture capital firm. Once the company goes public, you're opening up that business to be owned by a large number of people. In effect, the firm goes from being owned by just a few people to potentially tens of thousands of shareholders.

To commemorate the event, most stock exchanges hold a ceremony [00:01:00] of sorts. At the New York and London Stock Exchanges you'll ring the bell. At the Hong Kong Stock Exchange you'll strike the gong.

So, why go public? Well, going public raises a lot of cash for a company. With that money, it becomes easier to scale and grow, invest in infrastructure, and attract top candidates. Plus, there's the bragging rights you get from being listed on a stock exchange.

It's important to note that large companies can also stay private too. IKEA MARS, ALDI, and State Farm are just some examples of massive companies that are private. After all, going public isn't a simple process, normally taking about four months to complete.

The company will start with finding what's known as an underwriting firm, typically an investment bank or several. If and when the firm takes on the job, they put up the money to fund the IPO, essentially buying the shares before they're actually listed anywhere. The firm works with the company to determine what type of security to issue, an offering price, the number of shares, and the optimum time to bring a company to the public market. [00:02:00] In the US, they also handle registering with the US Securities and Exchange Commission, which makes sure all of the financial information has been disclosed and is accurate. Then you're finally good to go.

The underwriters goal is to sell shares to the public for more than it paid the company. After all, that's how they make their money. But going public can also mean a nice payday for the business founders and early investors. You often hear about people becoming millionaires, or even billionaires, after their company goes public. Here's why. If you've worked at a private company that's intending to go public one day, sometimes part of your compensation is given through equity, part ownership of the firm. It's a way to hire talented people without a lot of cash upfront. If the company does go public, you get a piece of it at its new valuation. Here's an example. When Snapchat went public in 2017, its founder Evan Spiegel scored big. Spiegel, got a stock grant of 636 million when the company went public. The following year, he sold more than 2.6 million shares. The sale of his [00:03:00] stock was equivalent to $50 million.

The number of companies going public is constantly fluctuating. Globally, 1,764 companies floated in 2017, a nearly 50% increase since 2016, and the most IPO's since 2007, 189 of 2017 IPOs were in the US, a 70% increase from the year before. A few of the biggest IPOs in history include Facebook, Visa, and General Motors. In 2014, Alibaba smashed the record with its debut on the New York Stock Exchange, bringing in $25 billion. All that said, going public has its drawbacks. Publicly traded companies are subject to oversight by regulators like the US Securities and Exchange Commission. Once you list your company on an exchange, you're not just reporting to yourself anymore. You answer to all your shareholders. If you don't make them happy, you can be sidelined or even fired from the company you founded.