

Unit 11

Going public

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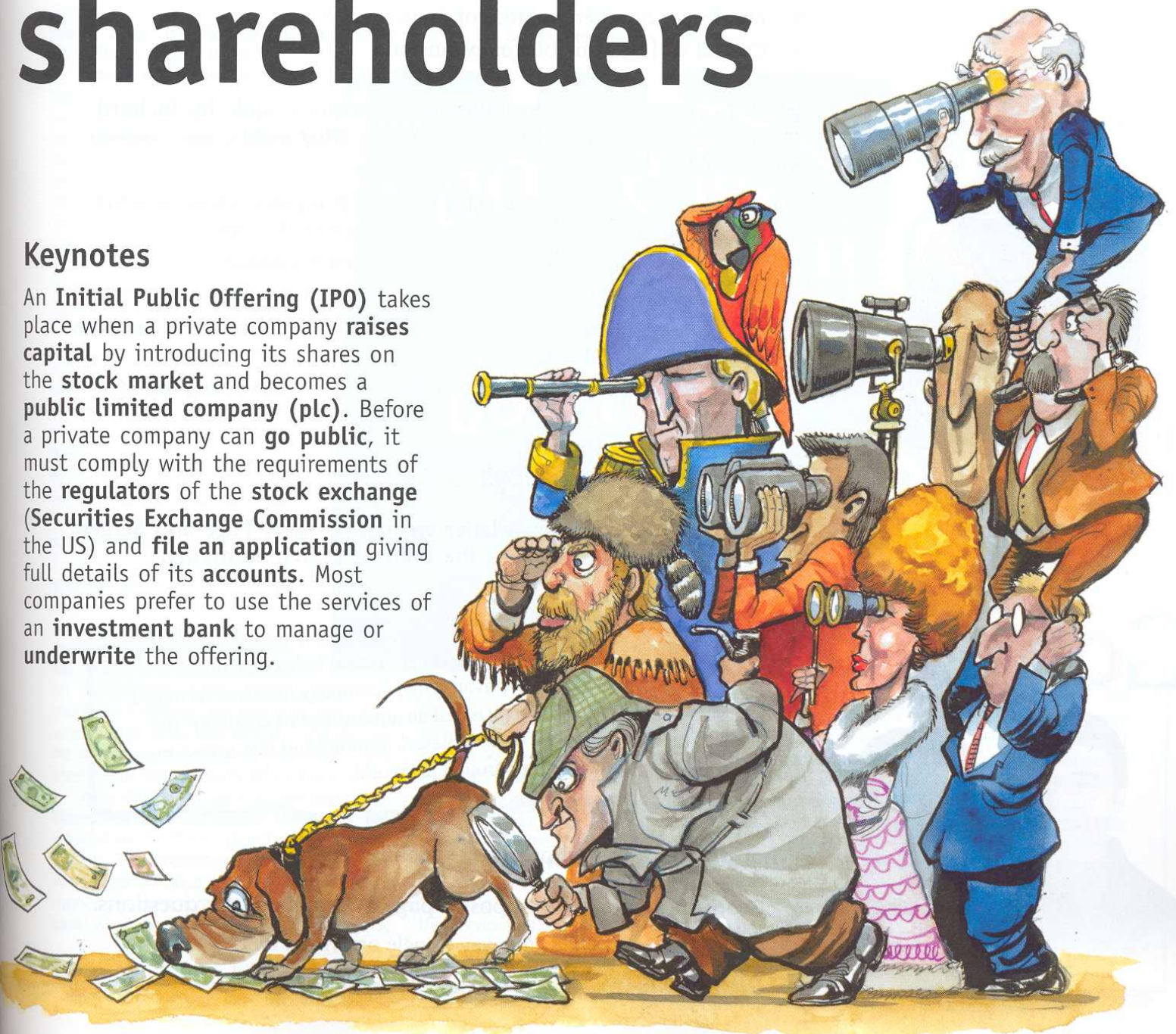
Dilemma: Which way to Wall Street?

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Searching for shareholders

Keynotes

An **Initial Public Offering (IPO)** takes place when a private company **raises capital** by introducing its shares on the **stock market** and becomes a **public limited company (plc)**. Before a private company can **go public**, it must comply with the requirements of the **regulators** of the **stock exchange** (**Securities Exchange Commission** in the US) and **file an application** giving full details of its **accounts**. Most companies prefer to use the services of an **investment bank** to manage or **underwrite** the offering.



Stock market launches



1 Listen to an expert talking about why companies decide to go public. Match the three companies that she mentions with the reasons that she gives for their IPOs.

- | | |
|------------------|-------------------------------|
| 1 DreamWorks | a to pay off debt |
| 2 Virgin Blue | b to pay back investors |
| 3 Domino's Pizza | c to pay for future expansion |

2 Read the following statements. Which show the advantages of going public and which show the disadvantages?

- 1 Management will face pressure to produce positive quarterly results.
- 2 Outsiders may impose their views on management.
- 3 The value of the business may suddenly fluctuate.
- 4 More people will be aware of the company's existence.
- 5 The company will be obliged to disclose financial information.
- 6 The company can obtain finance without having to repay a debt.
- 7 Employees can exercise stock options.
- 8 Capital will be available for expansion.

Speaking

Work in pairs. Discuss the following statement made by Richard Branson before he decided to take Virgin Blue public and answer the questions below.

The delightful thing about not being a public company is that we don't have to worry about foolish analysts who say stupid things.

- 1 Why do you think Richard Branson changed his mind?
- 2 When is it better for a company to go public rather than stay private?
- 3 How would you decide whether or not to buy the shares of a company that was going public?
- 4 Can you think of an example of a company that has gone public? How successful has it been?

Reading

Wall Street wonderboys

1 Read the extract from a letter written by Larry Page and Sergey Brin, the founders of Google, the internet search company.



Google is not a conventional company. We do not intend to become one. Throughout Google's evolution as a privately-held company, we have managed Google differently. We have also emphasized an atmosphere of creativity and challenge, which has helped us provide unbiased, accurate and free access to information for those who rely on us around the world.

What do you know about the company?

2 Read the text on the opposite page and answer the questions.

- 1 What is unusual about the way Google organised its IPO?
- 2 What are the two principles on which Google is founded?

WALL STREET WONDERBOYS

PAGE AND BRIN'S DARING IPO

The new men on the block fight the Wall Street cartel

¹ LARRY Page and Sergey Brin, the founders of Google, are doing something that has never been risked before. Not by Microsoft's Bill Gates. Not even by Apple's Steve Jobs. The Google guys are telling Wall Street to drop dead.

² Those entrepreneurs from an earlier era played the game of going public the way it had always been played. Before Google came along, when a company was ready to sell shares, it hired big Wall Street investment firms such as Goldman Sachs and Morgan Stanley. The firms offered the stock to their favorite customers at a big discount. The privileged few were guaranteed quick profits, but the company received less money for its IPO. And the newly public company paid a high price for the honor. The investment firms' commission was typically as high as 7 per cent of the money raised. That fee could run into the hundreds of millions of dollars.

³ Page and Brin aren't putting up with this racket. Their plan is to use a public auction to offer Google's shares to anyone willing to pay the market price. Google will receive an estimated \$100 million more by handling the sale this way. And while major firms like Morgan Stanley will be managing the auction, their role – and their fees – will be much diminished.

⁴ Why did such famous risk-takers as Gates and Jobs put up with the Wall Street shakedown? They didn't have much choice. The brokerages were able to act like a cartel because they held a near monopoly on information. CEOs had no idea what was happening to their stock

price unless they called their brokers. And the buyers of equities were mostly big financial institutions – pension funds, insurance companies – that paid commissions to the big brokerage firms for research and



advice. The investment houses essentially gave kickbacks by cutting them in on IPOs.

⁵ Cracks began to appear in that cartel in the late 1990s, when WR Hambrecht & Co. and Wit Capital pioneered the auction approach. But few entrepreneurs chose these Wall Street reformers for their IPOs. Why? For one thing, many founders and CEOs picked traditional investment banks to take them public because they wanted the services of the firms' "analysts" – who

Glossary

drop dead mind its own business

racket (US *shakedown*) a way of obtaining money by fraud or deception

kickbacks (Br *backhanders*) sums of money paid to someone in exchange for a favour

hype promote something with exaggerated claims

gun attempt to defeat

brains will trump brawn intelligence will win against power

status quo the situation as it is

notoriously hyped clients' stocks under the guise of providing objective stock research. Page and Brin built Google by applying their hyper-mathematical logic to the internet; now they have focused the same rationality on the IPO industry. In so doing, they might revolutionize Wall Street just as they revolutionized the internet.

⁶ Of course, the huge popularity of Google's brand makes it possible for the company to bypass Wall Street. The Google guys are relying on the fact that by the time the public come to decide whether to buy, they will have seen that the old way was collusive and corrupt while their way is rational and fair. That's a great leap of faith. Alienating the powers that be in investment banking has risks, too. The first time the newly public company reports disappointing results, Wall Street will be a very lonely and dangerous place, where everyone is gunning for Google and few allies are to be found.

⁷ Page and Brin are going to take that chance.

Google is based on the twin principles that brains will trump brawn and that a democracy will always supplant a hierarchy. This democratic impulse forms the very core of Google's technology; so it goes with the IPO: Google has put its future in the hands of the people, not Wall Street. Larry and Sergey are not your typical courageous leaders. But they are at the forefront of a new breed of technocrat kings who are gambling that they can out-think – and outflank – the status quo.



3 Read the text again and study the following statements. Which refer to the way that companies traditionally issued shares, which refer to the public auction approach adopted by companies like Google and which apply to both?

	Traditional	Auction	Both
1 Stocks are sold directly to the public.		X	
2 The company pays fees to a brokerage firm.			
3 Stocks are sold mainly to financial institutions.			
4 Shares are sold at a reduced price to favoured customers.			
5 The company receives more money from the sale.			

4 Statements 1–6 paraphrase information given in paragraphs 3 and 4. Which of the following groups of people does each statement refer to?

- a entrepreneurs like Bill Gates
 - b institutional investors / investment funds
 - c Larry Page and Sergey Brin
- 1 They did not have the information to allow them to track the performance of their companies on the stock exchange.
 - 2 They were the principal purchasers of newly issued shares.
 - 3 They represent a new generation of business leader.
 - 4 They paid high commissions for information from stock specialists.
 - 5 They needed to keep on good terms with analysts.
 - 6 They paid for information and consulting services.

Speaking

What are the disadvantages of not following the traditional route and bypassing Wall Street when going public?

Do you think that Google will be successful in the long term or will it suffer as a result of having antagonised the Wall Street community?

Listening 1

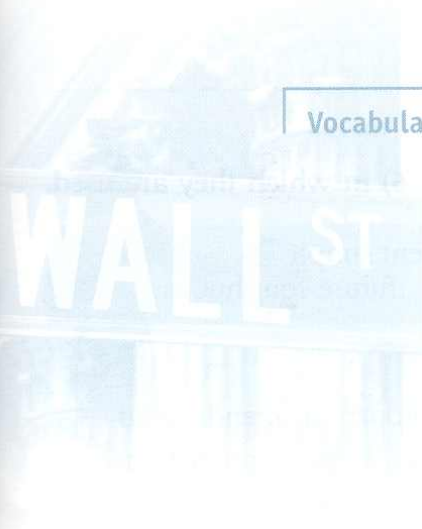
An analyst's view

Listen to Jonathan Harper giving his views of the Google IPO. Complete the table below.

Capital expected from the IPO		Capital raised	
Number of shares expected to be sold		Number of shares actually sold	
Projected share price		Share price obtained	
Mistakes made	1		
	2		
	3		

Writing

Your CEO has asked you to give your opinion about whether your company should plan to launch its new IPO by auction or by using an investment bank. Write a short letter saying which method you would recommend, and why. (See *Style guide*, page 16.)



Vocabulary 1

Find words in paragraphs 3 and 4 of the text on page 95 and match them with their meanings.

- 1 (public) auction a method of selling where people bid against each other
- 2 _____ the price determined by supply and demand
- 3 _____ companies specialised in selling stocks
- 4 _____ a group of companies that form an alliance to control a sector
- 5 _____ a situation where there is only one supplier of goods or a service
- 6 _____ the price of a company's shares
- 7 _____ stocks and shares
- 8 _____ the percentage paid on transactions

Vocabulary 2

Prefixes

The prefix *out* can be added to certain verbs to indicate that something is done better. Study these examples from paragraph 7.

outthink think in a more intelligent way

outflank have a more effective plan of attack

Match the verbs with their meanings below.

outlast	outscore	outmanoeuvre	outnumber
outperform	outbid		

- 1 use tactics to gain advantage
- 2 compete more effectively
- 3 buy something with a higher offer
- 4 obtain a better result
- 5 be of longer duration
- 6 be more numerous

Practice

Complete the article with the appropriate form of words from Vocabulary 1 and 2.



Investors who are looking to add some new ¹ equities to their portfolios will get the chance to do just that when Fairfax Inc goes public. It announced recently that it will be going ahead with plans for its IPO, and a company spokesman said that they would be offering two million shares. They expected that the initial ² _____ would be between \$25 and \$30. The IPO is unlikely to affect the management of Fairfax's business affairs as the votes held by the original shareholders will ³ _____ those of investors acquiring a stake in the company. Fairfax said that although they had originally intended to hold a ⁴ _____ of the shares on the internet, they have now decided to use the services of the Randsfeld Investment Bank, which will be organising the sale in collaboration with several of the major Wall Street ⁵ _____.

Fairfax has refused to disclose the details of the agreement, but it is rumoured to be paying the bank a ⁶ _____ of eight per cent on the IPO. The company has consistently ⁷ _____ its competitors in its sector, and analysts are saying that they anticipate strong demand for Fairfax shares. This should result in a rapidly rising ⁸ _____ once investors start trading on the exchange.

Future forms

1 Match the following with the situations (1–6) in which they are used.

future with <i>going to</i>	future perfect	present simple
modals <i>may</i> or <i>might</i>	future with <i>will</i>	future continuous

- 1 to describe actions in progress in the future
- 2 to talk about things that someone wants to happen or intends to do
- 3 to talk about uncertain future events and make tentative predictions
- 4 to describe actions which will be completed by a particular time in the future
- 5 in clauses introduced by e.g. *when*, *as soon as*, *if*, *before*
- 6 to make firm predictions

2 Match the examples taken from the text on page 95 with 1–6 above.

- a Google **will receive** an estimated \$100 million more ... (para 3) _____
- b ... Morgan Stanley **will be managing** the auction, ... (para 3) _____
- c *In so doing*, they **might revolutionize** Wall Street ... (para 5) _____
- d ... they **will have seen** that the old way was collusive ... (para 6) _____
- e The first time the newly public company **reports** ... (para 6) _____
- f Page and Brin **are going to** take that chance. (para 7) _____



For more information, see page 161.

Practice

Choose the best options (a–c) to complete the sentences. There may be more than one correct answer.

- 1 Analysts will know more about the company's financial position when it _____ its prospectus next month.
a is going to publish b publishes c will publish
- 2 The auditors say that they _____ the final version of the income statement by the end of next week as they'd planned.
a will not have finished b are not going to finish c will not be finishing
- 3 Personally, I _____ any shares because I don't think the company will ever be able to pay a dividend.
a will not buy b am not going to buy c might not buy
- 4 CEOs can make all the predictions they like, but ultimately it's the markets which _____ .
a will decide b will be deciding c will have decided
- 5 I _____ buy a few shares, but only if the market looks good.
a might b will c am going to
- 6 Our Chief Financial Officer _____ the first presentation to analysts on 21 June.
a makes b will have made c will be making

Speaking

Make a list of things in the future that you intend to do, you will have done by a certain time or you will be doing at some point. Discuss your list with a partner.

Career skills

Making a presentation

When you are making a presentation, it is important to include appropriate language to show your audience what you are doing at different moments. This will make it easier for them to follow what you are saying and will signal the transitions between the different sections of your presentation.

Look at the following language, which can be used to signal the different sections in a presentation.

- | | |
|---------------------------------------|--|
| a <i>for instance</i> | h <i>to put it in simple terms</i> |
| b <i>in other words</i> | i <i>i.e.</i> |
| c <i>in brief</i> | j <i>I'll come back to that later.</i> |
| d <i>as you can see here</i> | k <i>moving on to</i> |
| e <i>to go on to (the next point)</i> | l <i>as this chart shows</i> |
| f <i>to sum up</i> | m <i>that brings me to</i> |
| g <i>such as</i> | n <i>another way of putting that</i> |

Which of a–n above would you use to do the following?

- 1 illustrate your presentation with examples (or visuals)
- 2 simplify or summarise sections of the presentation
- 3 show that you are changing to a different section of the presentation
- 4 reformulate or paraphrase what you have said

Listening 2

Listen to the introduction to a presentation given by Andrea Herra to a group of analysts and answer the questions.

- 1 What will the main sections of her presentation be?
- 2 Which of a–n above does she use?

Practice

Work in groups. Choose one of the next sections of Andrea's presentation (section 1 below, sections 2–5 on page 141). Read the notes and then prepare and present your section.

INNOVA

Section 1 Who we are

Registered in 2003
Sectors of activity
Products
Number of employees
Head office and research centre
CEO

founded by Gary Patton and Francis Fairbank
new materials research (chemical and bio-engineering)
patented biodegradable plastics
250
Pasadena, California
Andrea Herra

Culture at work

Presentation styles

When you give a presentation to an audience in another country, you may have to adapt the style of your presentation. In some cultures, audiences may react negatively to a presentation that is considered to be too flashy and over-optimistic. What style of presentation do people in your country use? Is it considered acceptable to use humour in a presentation?

Dilemma & Decision

Dilemma: Which way to Wall Street?

Brief

Hi Wire Ventures was the parent company of *Hi Wire* magazine – a popular business magazine for Silicon Valley entrepreneurs and executives. When the internet boom was in full swing, Hi Wire Ventures had big plans: launching new multimedia start-ups and new titles that would position the group as one of the leading interactive media companies. Financing that plan meant taking the company to the Stock Exchange. But it wasn't all going to be quite as simple as Chief Executive and founder Mario Rossini might have imagined.

The company had already been forced to cancel their first attempt at an IPO at the last minute when stock prices started to fall. But now, two months later, Rossini is convinced that the market is ready for the launch. He has found a bank to manage the launch and they have just finished doing the 'road show', a series of sales presentations where professional investors are invited to commit themselves to buying shares. Representatives of the bank and of Hi Wire's senior management team are now meeting to discuss the results and decide on the future of the IPO.

Task 1

Work in groups. Group A, you represent the bank. Turn to page 142. Group B, you represent Hi Wire senior management. Turn to page 144. Prepare the arguments that you will present at the meeting.

Task 2

Have the meeting with the representatives of the other group. Discuss your arguments and reach a decision about what action to take for the IPO.

Task 3

Each group should prepare a short presentation of the final decision and give their presentation to all the senior managers of Hi Wire and the bank.

Write it up

Write a short press release explaining the decision. (See *Style guide*, page 30.)

Decision:

- Listen to Larry Elgin talking about what went wrong with the Hi Wire IPO.