UNL professor says Twitter may soar post-IPO, but many firms don't

November 7 2013, by Leslie Ree

As Twitter embarks upon an initial public offering that is projected to raise some $1.7 billion for the social media company, it walks past a veritable graveyard of dead IPO companies.

Theresa Welbourne, director of the Center for Entrepreneurship at the University of Nebraska-Lincoln's College of Business Administration, has spent much of her career studying how companies fare post-IPO. In coming weeks, she plans to release a report detailing the 10-year survival rate of about 1,000 companies that went public in 1996, the height of the IPO frenzy that burst with the dot-com bubble in 2001.

"That was the biggest IPO year ever," she said.

The preliminary data isn't pretty. Only 38 percent of the firms survived 10 years after their IPO. Only 22 percent could be considered "winners"—in that their 2006 stock price was at least as high as it was in their initial offering.

Welbourne cautions that the IPO lessons taken from her research may not strictly apply to celebrity companies like Twitter or Facebook and Amazon, the digital companies that preceded it in the transformation from privately held to publicly traded.

In fact, though Facebook's IPO in May 2012 is often characterized as a "disaster," she notes that the stock offering raised more than $10 billion for the company. Although Facebook's stock price plummeted in the

weeks following its IPO, a year later it had more than recovered, with its stock trading 30 percent higher than its initial offering price.

The situation is so different from low-profile companies, whose stock is slow to trade, that she is considering creating a separate category in her research for companies like Facebook and Twitter.

"They're in the public eye, the slightest good news is going to elevate their stock because so many people know about it," she said. "The odds are in their favor."

Her expectation is that Twitter stock, like that of Facebook and Amazon before it, will spike in price shortly after the initial offering, then drop, before settling into a steady growth trajectory for coming years.

In her latest research, Welbourne has found somewhat surprising reasons why some companies thrive after an IPO and others wither.

The leading trait among the survivors was energetic employees who have a sense of urgency about their companies, she said. In what might seem counterintuitive to many business experts, the employee trait outranked management skill, marketing prowess and unique products, she said.

"In the long run, the only thing that matters is people," Welbourne said.

Going public can be traumatic, Welbourne said. It marks a major shift in business culture.

For example, newly public companies have to control the information they share with employees or risk violating insider-trading laws. Quarterly reporting requirements can shift management away from pursuing long-term goals to focusing on quarterly profits.

Yet an IPO is an attractive way to get cash to reward a company's founders and investors; to share wealth with employees through stock options; to attain the transparency needed to do business with large corporations; and to grow quickly.

Welbourne's previous research has indicated that companies that use their IPO proceeds to improve their work force and to foster innovation are more likely to continue to grow and thrive.

"When you're public, the way to make your stock price go up is to grow," she said. "But fast growth is really hard on a company. It increases the pace of change and it brings in all these people issues that some don't know how to manage.

"There are a lot of pressures. You've got to grow fast. That's why a lot of companies fizzle out and die, or they end up being bought by somebody."

Provided by University of Nebraska-Lincoln

Citation: UNL professor says Twitter may soar post-IPO, but many firms don't (2013, November 7) retrieved 23 June 2024 from https://phys.org/news/2013-11-unl-professor-twitter-soar-post-ipo.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.