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# JOBS Act Will Drive Businesses to IPO On-Ramp: Opinion

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While the center of the universe this week for Wall Street and the IPO world is Facebook's long-awaited debut to the public market, the biggest ongoing story related to the IPO market is the enactment last month of the Jumpstart Our Business Startups (JOBS) Act.

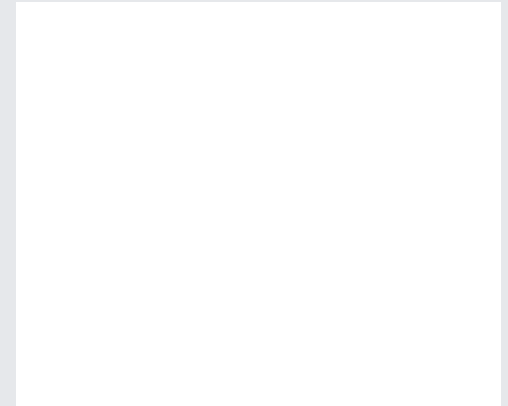
This important new law contains all the elements needed to breathe new life into an **IPO** [\[👉 explain this\]](#) market that had been

eviscerated over the past decade. It is an especially welcome tonic for the emerging growth companies that drive U.S. innovation, job creation and economic activity.

Among its key provisions, the **JOBS Act** creates a so-called IPO on-ramp that removes many of the roadblocks to going public that emerging growth companies have faced over the past decade due to a jumble of well-intentioned but ultimately misguided government regulations, including the almost universally loathed Sarbanes-Oxley Act (SOX) of 2002. Originally conceived in the wake of the Enron and Worldcom accounting scandals, SOX was intended to apply only to the 1,000 largest companies in the U.S. Yet, in a fit of last-minute regulatory zeal, Congress in its wisdom ultimately decided to apply SOX to all U.S. public companies.

That meant a company with \$150 million of market capitalization was subject to the same reporting and compliance standards as **Exxon Mobil**, [\[XOM Loading...\]](#) **General Electric** [\[GE Loading...\]](#) [\[or Apple\]](#). [\[AAPL Loading...\]](#) The collateral damage was the destruction of the U.S. IPO market. A research study published by Grant Thornton shows that between 1991 and 2000, the average annual number of U.S. IPOs was 530. Between 2001 and 2010, which includes eight years of SOX, that number dropped to 126.

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Patricia Orsini

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For emerging growth companies trying to take the next step in their evolution, the effects were even more devastating. In 1991, more than 80 percent of U.S. IPOs raised gross proceeds of less than \$50 million. Today, it is completely inverted, with under 20 percent of all IPOs raising less than \$50 million.

The JOBS Act seeks to right that wrong by easing much of the regulatory burden for

companies with less than \$1 billion in revenue that want to tap the capital markets via an IPO. In other words, the vast majority of companies wishing to go public: In 2011, only 15 out of 117 companies (13 percent) that completed an IPO topped the \$1 billion of revenue threshold.

Beyond lowering the hurdles to an IPO for emerging growth companies, the JOBS Act offers the added benefit of sharply reducing their cost of capital because investors are willing to pay a premium for the liquidity associated with a publicly traded stock. A public company with similar financial attributes to a private company is typically valued two times higher.

The flip side of the liquidity premium is the “discount for lack of marketability” concept, which means that investors in private companies demand extra compensation for illiquidity, translating into a higher cost of capital for the issuer. Before SOX, the median time it took for venture-backed private companies to go from initial funding to IPO was 3.5 years. Today, that time period has more than doubled. Consequently, the money raised by such companies in the added years of being private comes at a much higher aggregate cost of capital than would have been the case had they gone public.

Perhaps one of the most important differences the JOBS Act will make is changing perceptions about the cost and difficulty of taking an emerging growth company public, particularly among venture capitalists. For the last decade, the consensus opinion has been that SOX and other regulations have imposed unacceptably high compliance costs on emerging growth companies seeking an IPO in terms of both dollars spent and time wasted.

With the JOBS Act in place and, most importantly, delivering much of the relief that most participants in the market for emerging growth company IPOs were seeking, the responsibility to make it work successfully now falls on those same market participants, including entrepreneurs, venture capitalists and investment banks. While the JOBS Act certainly is not a cure-all, it will make it easier for some college student sitting in his dorm and developing an innovative new business model to one day bring that company to the public markets sooner than would have otherwise been the case, for the mutual benefit of both entrepreneur and the investing public.

That’s a concept we all can “like.”

*Timothy J. Keating is the founder and CEO of Keating Capital, a Colorado-based publicly traded company that specializes in making pre-IPO investments in emerging growth companies that are committed to becoming public.*

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Editor of CNBC.com's Small Business section, has covered business and personal finance for more than 20 years. She loves to shop local.

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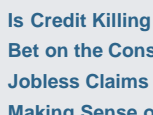


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source: "Female Entrepreneurs: No Success Without a Fight"

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