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Taking stock

IPOs in uptick after pause

BY CLAUDE SOLNIK

After a long lull, the number of initial public offerings has begun to increase, generating business for accounting and law firms specializing in these transactions.

There were 40 IPOs in the United States between April 1 and June 30, raising \$6.2 billion, more than three times the number and double the amount raised during the prior quarter, according to Sutton, Mass.-based Audit Analytics.

That generated work for large accounting firms with Deloitte and KPMG each auditing 18 percent of IPOs, followed by Ernst & Young at 15 percent and PricewaterhouseCoopers at 13 percent.

Marcum, with large Melville operations, audited 5 percent of all IPOs, winning a spot among firms specializing in public companies.

"The amount of IPOs did increase from the first quarter of 2016, but the overall trend is still down from last year," according to Audit Analytics.

The 53 IPOs in the first half of the year raised \$9 bil-

lion, down from 117 that raised \$23 billion in that period a year ago.

PricewaterhouseCoopers led the pack for the first two quarters with 19 percent of IPO audits, followed by Ernst & Young at 17 percent, Deloitte at 15 percent, KPMG at 13 percent and Marcum at 6 percent.

Marcum, however, may be the big winner in terms of public company clients: The firm added 11 public company clients, the most of any U.S. accounting firm, during the first half of the year, according to Audit Analytics.

"While the environment for IPOs remains significantly less robust so far in 2016 as compared to last year, we did see a pickup in the second quarter," David Bukzin, partner in charge of Marcum's national SEC services practice group, said in a written statement.

The number of IPOs has been dwindling annually, said David Silverman, a partner at PricewaterhouseCoopers.

Tammy Straus, a partner at Grassi & Co., based in Jericho, said things are starting to pick up, as private equity firms seek to cash in by leading public offerings.

"Private equity funds that were so hot for the last five or six years are starting to look at exit strategies," Straus said. "We're seeing some of those come



DAVID BUKZIN: There's hardly a surge when it comes to IPOs, but things are picking up slowly.

through."

Still, Straus called the IPO market "anemic compared to some years back. We are starting to see an uptick."

See STOCKS, Page 6

STOCKS, From Page 6

She blames cost and compliance.

"It's expensive to go through the transaction and to have a public company from the constant requirements for reporting," Straus said.

Firms need to spend to go and remain public, which can dissuade some from preferring the public to the private world.

"I advise clients that when you decide to go public, you go from having one business to two: the business you're in and the business of being public," Bukzin said. "You have to focus on both."

Some accountants believe that low company valuations keep many public companies sitting on the sidelines.

"It's more about market conditions that drive valuations as opposed to the companies themselves being deficient," Silverman said. "With valuations, the beauty is in the eye of the beholder."

Although conditions for IPOs are improving, Silverman said IPOs of firms with billion-dollar valuations known as "unicorns" are becoming rarer.

"There was a significant number of unicorns in 2014 and 2015, based on high valuations and quality of companies," Silverman said.

Firms like Uber and Snapchat could provide a new round of billion-dollar IPOs, although for the moment, they're on the sidelines.

"Uber looks like they're probably going to jump back into it," Straus said. "They were on hold for a while. It may be more imminent than it looked a couple of months ago."

SoulCycle, a chain of exercise ven-

ues, last fall filed to go public, and has been on hold ever since.

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"They wanted to back off and concentrate on growth before they went for the IPO," Straus said. "They want a better valuation."

Marcum has been winning over mid-sized firms that go public, while the unicorns remain, if not a myth, a memory.

"We specialize in the entrepreneurial aspect of the public company markets, generally speaking companies with

under \$500 million in market cap," Bukzin said. "There are a lot of IPOs in the smaller end of the market."

Douglas Wildstein, a partner in assurance services at Marcum, said firms need to decide not only whether, but when, to go public.

"IPOs are extremely time-sensitive and deadline-driven, so the accountant has to be ready and able to respond

to changing circumstances in order to keep the transaction moving forward to completion," he said.

While some firms go public through an IPO, others take other routes to access the public markets.

Hicksville-based Long Island Iced Tea went public through a reverse merger. Marcum was its auditor and Manhattan-based Graubard and Miller did legal work.

"It has its costs and downside," Long

Island Iced Tea CEO Phillip Thomas said of being public. "We look at it as having the ability to raise capital through the public markets and we can use our stock as currency."

The Jobs Act lets companies file to go public confidentially through something known as Regulation (or Reg) A plus, so we may not know about companies preparing an IPO.

"They can file under the radar," Silverman said. "When the market turns, they're ready to go."

Regulation A plus lets companies raise up to \$50 million with lower reporting requirements than a traditional IPO, which could lead to more companies going public.

Marcum has been working on nearly a dozen Reg A plus offerings, which Bukzin called mini IPOs.

While public companies can change auditors, they typically stay with the auditor who worked on their IPO.

"It's not really practical once you do the IPO to change auditors," Bukzin said. "Can you imagine if you made an investment in a company that went public and the first thing they did was change accountants? It might make you a little nervous."

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