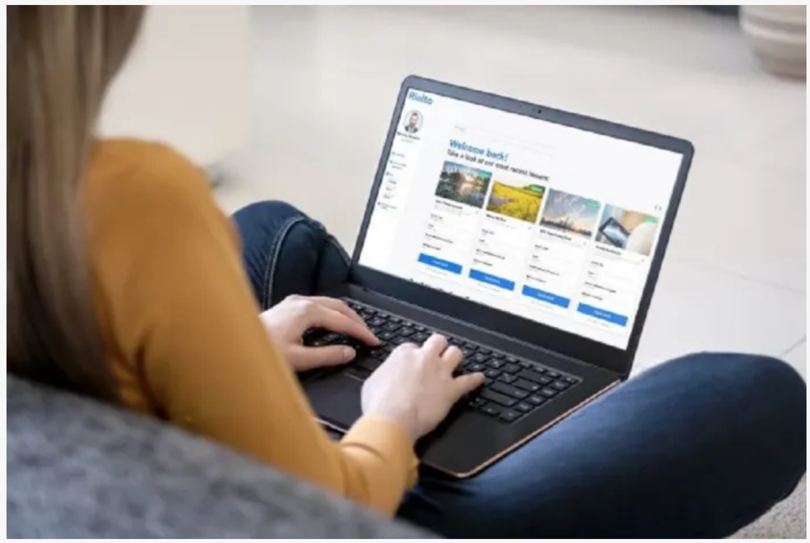
Why investors are looking to private firms for growth potential rather than waiting for a headline-grabbing IPO

Companies are staying private longer, bringing new opportunities for investors to back firms during their key growth stage, says a leading fintech expert



Rialto Markets secondary trading platform (ATS) has been swamped with requests from high growth private companies and marketplaces

NEW YORK , NEW YORK, UNITED STATES , September 20, 2022 /EINPresswire.com/ -- Why investors are looking to private firms for growth potential rather than waiting for a headline-grabbing IPO

Companies are staying private longer, bringing new opportunities for investors to back firms during their key growth stage, says a leading fintech expert.
The comment from FIX Trading Community Co-chair Lee Saba comes after research showing that most recently launched IPOs saw their share price plunge after hitting the stock market.

> It is now harder for investors waiting for fast-growing companies to go public”
>
> *Lee Saba, Head of Market Structure at Rialto Markets*

There is also an on-going slowdown in the number opting for flotation.
Data from StockAnalysis.com revealed as of September 12, 2022, there had been just 153 IPOs on the US stock market so far this year – a 78.9% drop against the same point in 2021, which had seen 726 IPOs by the same date.
In addition, more and more companies are delisting – snapped up by either private equity firms or significant shareholders – as stock market values fall.

A recent Wall Street Journal report, quoting Dealogic data, revealed that 47 such delist offerings were made last year – up from 33 the year before. By May 2022, the number already stood at 26.

It also quoted Kneeland Youngblood, CEO of private equity firm Pharos Capital: "It's very different as a private director, the degree of scrutiny, the degree of loyalty and all the rest. There's much less regulatory pressure, much less exposure in terms of litigation."


Lee Saba, Head of Market Structure at Rialto Markets

Co-chair of the FIX Trading Community, Lee Saba has more than 20 years' experience in financial services, and commented:

"More than ever, firms resist going public until much later in their lifecycle, preferring to build investment while keeping control of the business, rather than become too restricted as a public company.

"Staying private allows a company to remain focused on its strategy as well as side-step fickle market forces. They also avoid being bogged down by regulations that come with an IPO.

"Increasingly, firms opt to equity crowdfund instead, utilising new regulations which enable them to pull in significant and essential funding, while allowing them to keep control of their destiny.

"For investors, it also means they can potentially get in on the ground floor of firms eyeing growth rather than waiting for an IPO in which, more often than not, the growth rate is slowing or on a downward trend."

Nasdaq revealed in 1980 the median age of a company going public was six years. In 2021 it was 11.

That has been further accelerated by alternative trading systems (ATSs) being granted permission to operates via financial regulators for secondary trading of private securities, including digital asset securities.

These private market ATSs create the potential for investors to acquire or trade out of a private security, assuming there is a willing buyer or seller to execute in the same way as a public stock exchange.

This may open the door to further growth in a private securities market, which Forbes reports as already worth an estimated $7 trillion and forecast to be $30 trillion by 2030.

Recent IPOScoop data revealed just 14 of the last 97 recently launched IPOs saw share price improvement between their first day trading and the end of August 2022 – the remaining 83 saw a decrease.

All of which is leading many investors instead to take advantage of equity crowdfunding opportunities created by the JOBS Act, designed to allow small and large investors to have a stake in early-stage private companies.

Equity crowdfunding now allows a private company to raise up to $5 million on a Regulation CF exemption or as much as $75 million per year on a Regulation A+.

Lee Saba - also Head of Market Structure at award-winning New York-based broker-dealer [Rialto Markets], added: "It is now harder for investors waiting for fast-growing companies to go public.
"That significant growth investors crave has often gone by the time they go public – potentially because they are taking longer to reach the public markets.
"Consequently, many now seek new opportunities such as equity crowdfunding and secondary trading private securities for longer term growth potential while they are still private.
"Rialto Markets itself operates an ATS, in addition to demand for its capital raising infrastructure and technology, using Regulation CF, Regulation A+ or a combination with an institutional Regulation D investment offering."
Uber is often quoted to highlight the move away from public to private markets: valued at $5.4 million when just a year old, the firm went public in May 2019 valued at $80 billion, but the $45 share price lost 7% on the first day and were trading at $28.74 per share by 31 August 2022.
Former SEC Chairman, Jay Clayton, has also highlighted how regulation has made America's public markets too costly for companies compared to the private market:
"The public capital markets are so extensively regulated that companies with less than $1 billion in value find the costs of being publicly traded prohibitive. Deep pools of private capital have emerged to fund innovation and growth in small and medium-size companies, though regulations mostly limit these pools to institutional and high-net-worth investors."
Ends

Rialto Markets is a FINRA member Broker Dealer (Rialto Primary) and operates an alternative trading system (Rialto Secondary – Rialto MarketBoard™) for private securities including those issued as a Digital Asset Security. Rialto Primary supports companies issuing equity and debt securities through Reg A+, Reg CF, and Reg D exemptions. Rialto Markets is registered in all 50 states including those requiring a broker-dealer to issue Reg A+ securities.

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