Module: English for Economic Purposes (English 1)
Level: 1st year Master students/EMF
Department: Economic Dep.
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Lecture six: PUBLIC COMPANY TRANSACTION

First of all, every one of us should know the basic difference between the public and private companies ; public companies are traded on the stock market, and anyone can buy and sell their shares relatively easily. Private companies, by contrast, are not traded on the stock market (unless you count Second Market and similar exchanges) and liquidity is much lower as a result. Unless you founded the company, work there, or invested in it at a PE or VC firm, you simply **can't** buy shares.

Public companies disclose far more information, they're tracked and covered by equity research analysts, and it's much easier for you to invest in them. But the more interesting question is what differences this distinction creates for **you**, the entry-level or aspiring financier:

Company Leadership

Public companies tend to be run by seasoned, professional managers who have worked at many different companies before. You may see a strong personality or the Founder at the top (Larry Ellison, Mark Zuckerberg, Jeff Bezos, etc.), but on the whole they tend to be less Founder-dominated. By contrast, at private companies the quality of the team may be all over the place; you might see solid executives, or you might see a company that's run entirely by a single family and the Founder's brother and sister might be the "CFO" and "COO."

Size

Public companies are generally much **bigger**, revenue-wise, than private companies. These days, it's difficult to even *be* a public company without at least $50 million USD in revenue – but most businesses are small, private companies with revenue many times lower than that.

Culture The "culture" at many private companies tends to be quite random and is heavily influenced by the people at the top, whereas it's more **group-dependent** at sizable public companies.

Financial Statements Yes, technically all companies *should* have financial statements… but the quality varies widely. Public companies almost always produce financial statements audited by the Big 4 firms and that are in-line with GAAP / IFRS (well, except for “companies” like Enron). By contrast, you see more “quirks” on many private companies’ statements. For example, very small firms might use **cash accounting** rather than accrual accounting, which is almost unheard of for large public companies.

They might also use non-standard revenue and expense recognition policies, and the Founders might apply “business expenses” in “creative” ways (use your imagination).

Valuation

We’ll get into more details on valuation below, but the short version is that the **methodologies** are the same, but you have to make extra adjustments due to the lack of liquidity and publicly available market caps.

Deal Process

Private company sales are more likely to turn into extended auction processes, whereas public companies are bigger and require more discretion, and therefore use more limited and quicker processes most of the time.

Deal Structures

Some deal structures make little sense for private companies – for example, it’s almost impossible for a **private buyer** to use stock in an M&A deal unless it’s a high-profile private company that’s already worth a lot.

Asset purchases are more common with private companies, but are more difficult to pull off with public companies.