

RESEARCHING PRIVATE COMPANIES

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“You’re invisible now, you got no secrets to conceal.”

Bob Dylan

Dylan also hit it on the head when he said, “the times, they are a’changin’.” For competitive intelligence practitioners, accessing estimable information about private companies has long been a frequent and formidable task, regardless of organizational size or industry status. Over the past few years, the frequency of these instances has accelerated.

Of particular interest is the impending information deficit that is brewing as public corporations evaluate taking their firms private. For even the flushiest firms, the cost of complying with increasingly complex Security and Exchange Commission (SEC) requirements like Sarbanes-Oxley (namely section 404 in which companies must report assessments of internal controls to the SEC) has led many firms to mull over the importance of a seat in the capital markets.

Public firms have also been shutting off investor communications just to avoid mistakes. This often is a major source of information for researchers – particularly those involved in market monitoring. There are over 7,000 publicly held companies listed and traded on our main exchanges (about 3,600 on Nasdaq, 2,800 on the New York Stock Exchange, and around 700 on the American Stock Exchange). That’s a big change for information access if this trend continues – and many believe that it will.

FROM PUBLIC TO PRIVATE

According to Factset Mergerstat, (2003, www.mergerstat.com) 79 publicly

traded firms filed with the SEC to become private in the first eight months of 2003. The list is growing, from ASB Financial and Catalina Lighting to PriceSmart and Federal Screw Works.

These firms are just saying less to outsiders, in volume. In 2004, only 55% of US companies gave financial guidance, down from 72% in 2003. This number is expected to drop to 45% during 2005 (www.reuters.com).

And this change is extending overseas. American Depository Receipts (ADR), the vehicle for foreign firms to list on American exchanges, are also subject to increased scrutiny. More firms are figuring out that staying listed in the US and complying with Sarbanes Oxley is just too expensive (even if the employees of those same firms remain interested in coming over here to shop en masse, courtesy of our weak dollar). This list is also expanding, from Provalis in the UK and TeliaSonera in Sweden to Lion Bioscience in Germany.

Most fascinating is the increasingly popular notion in legal circles that governance standards will trickle down to private firms and non-profits, even though non-profits are already heavily documented by such resources as Guidestar.com. In March of 2005, Milwaukee based law firm Foley & Lardner LLP and KPC Research Inc. of California released their study, *The Impact of Sarbanes-Oxley on Private and Nonprofit Companies*. They learned that 90% of nonprofits have hired or plan to hire outside directors and nearly 80% of private firms have introduced governance reforms.

PRIVATE COMPANY RESEARCH

If you are not researching private companies today, you will be in the near

future. Your primary organizational targets may be taken private, or new organizations of interest may come onto the radar, all of whom might be privately held.

One of the first steps to consider when conducting private company research is your ability to identify the many direct and indirect relationships between that organization and the rest of the world. This will lead the curious researcher to many well informed sources and research repositories.

This brief column introduces several popular avenues that will allow you to move more deeply into private company research. Several of these information resources bear two common denominators: they involve access to public filings and records and they have a lot to do with ‘following the money.’ These appear in no particular order, and by no means do they represent an exhaustive list.

Filing Withdrawals

Has the firm ever filed for an initial public offering (IPO) and withdrawn the offering? If so, many required forms, particularly filings such as an S1, will be on file forever with the required government bodies. Additionally, many records of historical interaction with banks, investors, and other stakeholders will be recorded though such filings.

Patents, Trademarks and Inventions

This includes an examination of all potential trademarks, patents, service marks, copyrights, and other product or service protection and defense measures taken by a private firm. For a technology firm, a registered patent might lead a curious researcher back to earlier articles describing key parties and goals

(such as an academic paper authored by a founder). For another firm, the registration of a trademark, service mark, or other protective symbol might turn a researcher on to a whole new world of keywords for extensive research.

Unique Local Concessions

This touches the unusual concessions that are often granted to private firms to stimulate local job growth, increase area tax revenue, or otherwise accommodate the unique needs of any private organization.

For example, a search of town records and meetings might reveal discussion of a commercial zoning concession to allow for a small private firm to obtain additional parking. Such a discussion might detail headcount, space occupied, and so on, including possible mention or attendance by key organizational figures.

Bond Sales

Private firms often raise money by issuing debt in the form of bonds. To sell such bonds, private organizations are required to register information regarding company finances (and occasionally more information) to support bond grading and evaluation.

Following the bond registrations will reveal the map of the many banks, brokers, and investors involved. In particular, the individual or entity responsible for the sales of the bonds will often have unique insight and knowledge about the firm.

Private Placement

Similar to the process of issuing debt, many firms will seek the assistance of a transaction advisor (major bank) to support a private placement for the purpose of raising capital. Such information becomes available when the firm decides to sell shares. If this is the case, the organization will have to comply with common registration requirements, such as registering the sales with the SEC.

Additionally, if an investor is a major public corporation, details of

the transaction will often be filed or publicly announced. For example, a corporate venture group investing in small private partners will often detail the transaction at some level to spectators.

Acquisition Target or Acquirer History

If the firm has been the target of an acquisition (successful and recent or past and failed) where the potential acquirer is a sizable entity, details of the transaction will often be filed or discussed in public forums such as newspapers and trade publications. The level of information for a mangled mega-corporate acquisition will often be quite extensive.

Where the target has been a potential acquirer, the same rules apply, particularly where a large private organization seeks to acquire any portion of a public firm. In both cases, extensive detail will be provided to support shareholder approval, share valuation, and overall promise and intent for employees. Even where the efforts fail, acquirers often detail the future of management and the benefits of acquisition.

Carving out Operations

For many large organizations, the attraction to carving out a lucrative division and creating a separate stand-alone company is sometimes appealing. For example, many large publicly held companies have issued tracking stocks to follow the performance of certain operations before a potential offering of a stand alone investment opportunity.

Once a firm has discussed the issuance of a tracking stock or a potential carve out, rumors start to fly around possible acquisition and divestiture activities, potential prices and so on. However, one thing remains common: a lot of information is released.

Going Overseas

Private firms doing business overseas might be required to comply

with unique information needs, depending on the country.

For example, operation of an office or branch within certain countries might necessitate that a private firm create a wholly owned subsidiary or unique legal entity to comply with area business law. As a result, a curious researcher might be led to the town hall of a faraway European suburb digging up records similar to all of those found above and below.

Commercial Codes

For many production intensive environments such as manufacturing and assembly, organizations need to collateralize loans with current assets, like the equipment currently in use at a plant. The uniform statute adopted in most states to govern commercial transactions is the Uniform Commercial Code (UCC).

Filings will be registered and recorded with various state and county agencies, and a researcher might have great success identifying the complete inventory of equipment in use at a facility, including descriptions of major tools.

Internet Archives

Internet archives, such as the popular 'Wayback Machine' or the cached page feature of search engines offer access to the many websites that go up and then vanish over time. For a private firm, historical page views might yield an overload of information, from management profiles to details of investors and products or services.

Additionally, such information might exist on the archived pages of countless partners, vendors, or other organizations identified on the organizational network map. This type of research is particularly valuable for privately held firms that have been acquired and no longer maintain an Internet presence, as well as privately held firms that have suddenly become

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to meet some of your information requirements with free web-based news aggregators or discounted online news services. Here we provide a quick sampler of some of those players and a brief description of the information they publish (see Table 1).

THE BOTTOM LINE

Subscription news sources and content aggregators play a major role in competitive intelligence and market research. Analysts' access to information is unprecedented. But as the cost of content continues to rise, it is more important than ever to be a smart news shopper. Understanding your own information needs, the various news subscription offerings and considering a patchwork approach to combining fee-based and free sources, will help you realize the most cost effective solution.

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secretive in advance of major changes or announcements.

Spectators, Rumor Mills and Grapevines

You can often uncover the most obscure and fascinating information tidbits about private organizations through niche listservs, personal pages and weblogs. Other resources, such as industry rumor mills, follow the activities of the target far more frequently than the rest of the world, such as an industry analyst's blog.

The value of such information will generally prove inconsistent. At best, it might be a direct pathway to a source versus a treasure trove of private company information. But where the information and insights come from a well respected analyst or industry spectator who has been correct before, consider the value of the information to be slightly improved.

LEARNING MORE

The mechanics of private company research has resulted in the production of countless texts and training materials. A visit to the SCIP site and store will lead interested readers to dozens of additional resources. In large baskets, these materials are specific to either the whole of private firm research as a discipline (such as a stand-alone book), or a more narrowly focused approach within private company research (such as learning how to build what is called a 'ghost balance sheet' to determine what a private company might look like financially).

When it comes to private company research, the best information tends to come from human sources. All of those avenues described above will take you only part of the way, though many will

lead directly to high quality sources for dialogue.

The onus is upon the researcher to determine when to pick up the phone where the public information valves shut off. If companies continue to dismantle their soap boxes and shut off communications functions, I anticipate a lot of researchers will be faced with such decisions.

David Carpe is the principal and founder of Clew, LLC, a competitive intelligence consulting firm serving several of the world's most formidable organizations. This column was based on an edited excerpt from David's upcoming book about research. He is also the founder of PassingNotes.com, a research community. Before selling out to pursue a career in business, raise venture to start a software company, earn an MBA, and create Clew, he earned a BFA in studio art. David resides in Boston with his two sons and their one-eyed dog. He may be reached at david@clew.us.