



Ticker's Tales

"Going Public"

It sounds like Aye-P-Oh if you say it, but it's IPO when you write it. What's an IPO? Ask someone and you're likely to get a blank stare or a wild guess. Someone might even say it's a character like R2-D2 in Star Wars. An IPO could become a star, but a movie character it certainly isn't. So what is it? An IPO is a stock market term that stands for "initial public offering."

Simply put, an initial public offering is a company's first sale of stock to the public. For example, think of some popular companies today, such as Home Depot or Best Buy. Sometime in the past these companies began selling shares of stock to the public. Home Depot had its IPO offering in 1981 and Best Buy in 1985.

When these companies made their IPOs, they became public companies, which means anyone could then buy their stocks in the stock market. Before then the companies were private companies that didn't sell shares of stock to the public.

Why do companies "go public?" The main reason is to raise money for their growth. Since their IPOs in the 1980s, Home Depot and Best Buy have grown rapidly. As the companies grew and earned more money for stockholders, investors eagerly bid their stock prices up. Just think. If you had invested \$100 in Home Depot at the time of its IPO in 1981, your investment today would be worth nearly \$60,000! A similar investment in Best Buy at the time of its IPO in 1985 would now be worth almost \$12,000!

Of course, most IPOs don't turn out to be Home Depots or Best Buys. Think of all the people who lost their savings when they bought the IPOs of Internet companies before their collapse during the last couple of years. If you buy stock and become an owner of a company, you bear some of that company's risk. The company might turn out to be a winner — or a big loser that eats up your investment. In that case, you might groan about losing money on an Aye-Yaye-Yaye-P-Oh!

Write Now

Here are two companies with IPOs in 2002:

Dick's Sporting Goods (DKS) began trading on Oct. 6 at \$12.25 a share.

Cosi Inc. (COSI) began trading on Nov. 22 at \$7.60 a share.

Use a newspaper's stock table to find current quotes for both stocks. Are they trading for more or less than their prices right after their IPOs?