The Decreasing Number of Public Companies

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The number of publicly traded companies in the US has decreased dramatically over the past three decades. In 1996, there were over 8,090 publicly traded companies in the US and today there are just 4,700.[1] This has ramifications for investors, as well as financial markets more broadly. In his 2023 annual letter to shareholders, Jamie Dimon, CEO and Chairman of JP Morgan, called attention to what he considered the troubling trend of the "diminishing role of publicly traded companies in the American financial system."[2] Meanwhile, rather than pursuing the path of going public, some of the world's largest and most valuable companies are remaining private, including ByteDance, OpenAI, Stripe, and SpaceX.[3]

Our analysis reviews how the rise of private equity has reshaped how private companies are created and how and when they might choose to go public.

1 Source: The World Federation of Exchanges Database and CRSP as of August 2024.

2 Source: CRSP as of August 2024. JP Morgan, Jamie Dimon, "Chairman and CEO Letter to Shareholders," in the 2023 Annual Report, April 8, 2024.

3 Source: The Economist, "Why the Stock Market is Disappearing," April 18, 2024.

Key takeaways

→ **Rise of Private Capital |** The availability of private capital has provided companies with alternatives to going public.

→ **Accessing Growth Potential |** Private equity may serve as an avenue for many investors to fill the void left by the decreasing number of companies in terms of providing access to the growth of a broader swath of companies and industries.

Decreasing Number of Public Stocks

Throughout most of US market history, the number of publicly listed companies grew. This trend peaked in 1996, when there were more than 8,000 listed companies (see Figure 1).[4] The number of public companies experienced a decrease of over 40% between 1996 and 2012, when it reached a nadir of just 3,800 publicly traded companies. Since then, the number of listed companies has rebounded, with a net gain of 900 companies over the next 12 years.

[4] Note that estimates of the total number of listed stocks vary. For example, data from the World Bank shows a peak of just over 8,000 stocks, while data from CRSP US Stocks Databases shows it peaking at 7,300.

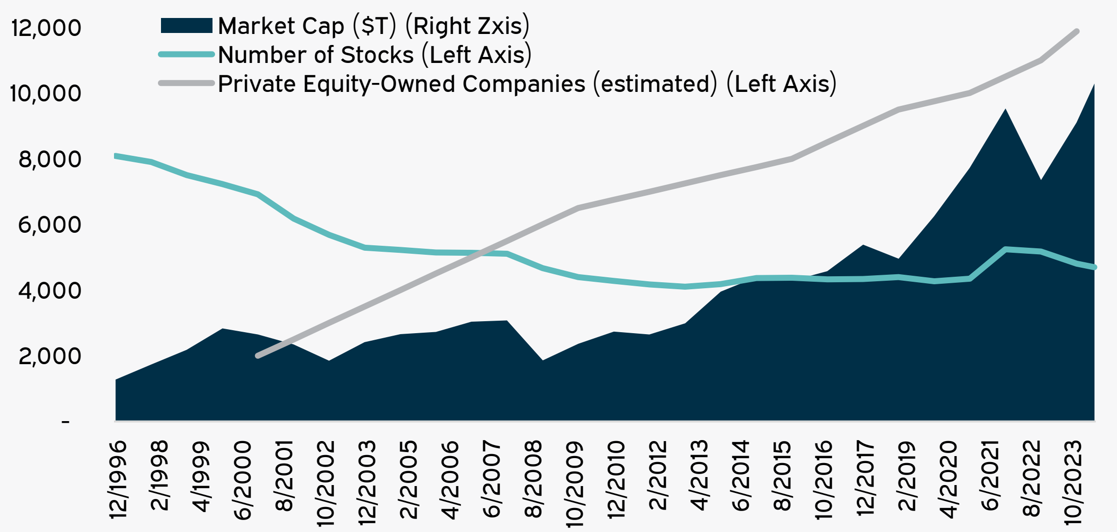

FIGURE 1

Number and Size of US Public Companies

Source: Bloomberg. Stock count from NASDAQ, New York Stock Exchange (NYSE), and New York Stock Exchange American.

Note: Past Performance is Not Indicative of Future Performance. May Lose Value.

The Rise of Private Capital

The decision to list or stay private may well be linked to the relative cost and availability of capital. In October 1996, the National Securities Markets Improvement Act (NSMIA) "made it easier for both private start-ups and private equity funds investing in them to raise private capital."[5] When examining pre- and post-NSMIA capital raising of late stage start-ups, there appears to be an notable impact on the size and geographic raising of funds after 1996.[6] Also, after the passage of NSMIA, private equity firms were able to raise larger funds with a larger number of investors (see figure 2).[7]

[5] Source: NBER, M. Ewens et al., "The Development of the Private Equity Markets and the Decline in IPOs," Working Paper No. 26317, December 2019.

[6] Ibid.

[7] Ibid. Under the Investment Company Act – very large private equity funds are required to register with the SEC and regularly disclose their investment portfolio.

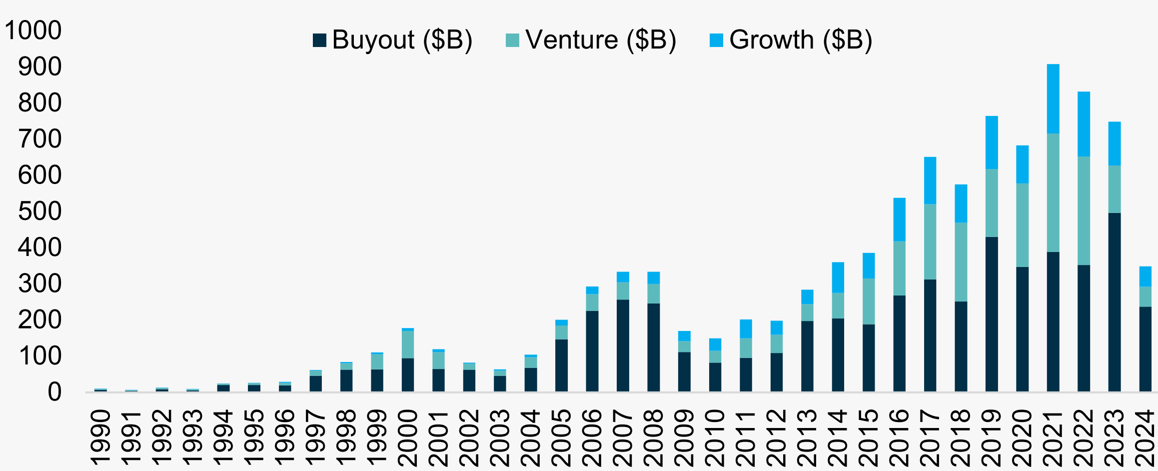

FIGURE 2

Private Equity Fund Raising 1990 - June 2024 ($B USD)

Source: Prequin, data as of June 2024.

Note: There is no complete and reliable data set for private investments. The information is extremely limited, and most data is compiled from funds that elect to self-report and tend to be biased toward higher performing funds. Losses are underreported. Funds included in these measures lack commonality and transparency. Over time, components of the data may change. Funds may begin or cease to be represented based on these factors, thereby creating a "survivorship bias" that may additionally impact the data reported.

The IPO has traditionally been regarded as the ultimate avenue for companies to access capital to support expansion, as well as a way for owners to substantially monetize their stake in the firm. Despite this, the number of IPOs has been much lower over the past two decades than it was in the 1990s (see Figure 3). Between 1980 and 2000, approximately 300 companies IPO'd each year, but for the subsequent decade, the annual average number of IPOs fell to just over 100. On closer examination, the decline in the number of IPOs appears to have been concentrated among small companies.[8]

[8] Source: SEC, X. Gao et al., "Where Have All the IPO's Gone?" April 3, 2024.

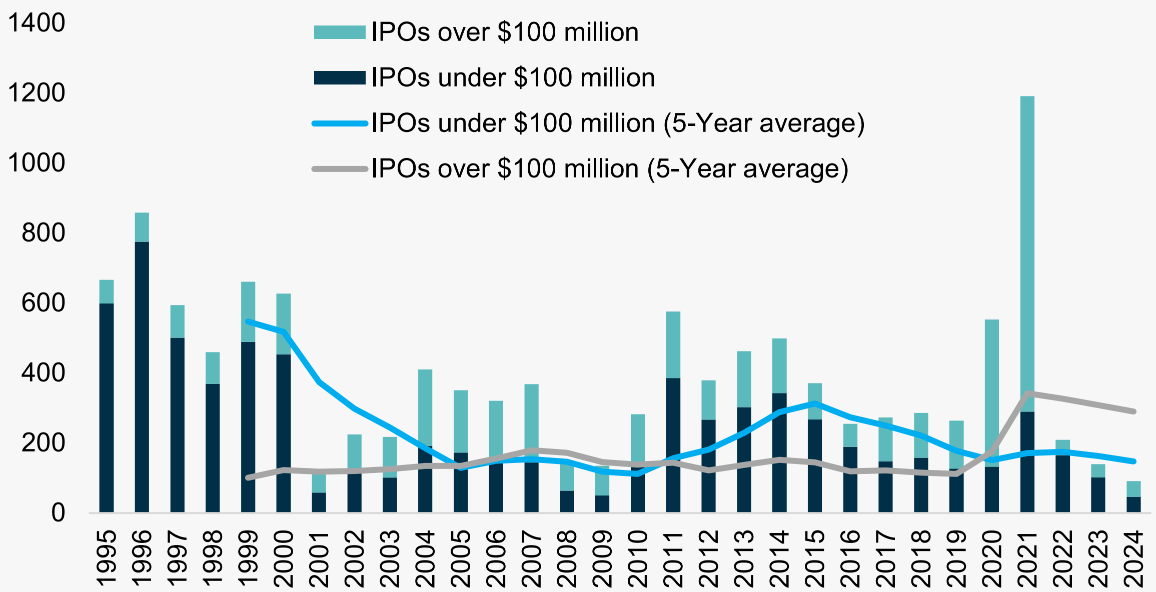

FIGURE 3

Number of Initial Public Offerings (IPO) by size Annual Figures: 1995 – June 2024

Source: Bloomberg. Data as of June 30, 2024 for NYSE, NASDAQ and NYSE American.

Note: Past Performance is Not Indicative of Future Performance. May Lose Value.

The role of the venture capital sector also has meaningful implications for IPO activity. In the past, venture capital financing was often seen as an important but intermediary step on a company's journey to going public. In recent years, however, companies are waiting longer, on average, to go public. For example, the average age of a venture-backed IPO has doubled in recent years.[9] Moreover, some of the most successful IPOs over the past decade were cashflow positive companies with an initial valuation of over $1 billion dollars – the so-called unicorns. Since 2014, there have been 340 unicorns listed in the US.[10] There are currently 1,242 unicorns around the world waiting to be listed, of which 954 are in North America. 534 of these are technology stocks that are estimated to be worth approximately $3.2 trillion in aggregate.[11] On average, these companies have been private for nine years prior to listing,[12] and are mature companies that warrant a market capitalization IPO price of a billion dollars or more.[13]

[9] Source: HBS, W. Janeway et el., "Venture Capital Booms and Start-Up Financing," 2021.

[10] Source: Pitchbook, P. Mathur, "The Meteoric Rise of US Unicorns in 2021," January 5, 2024.

[11] Source: Pitchbook, J. Rubio "Unicorn Companies Tracker," September 18, 2024.

[12] Source: Capital IQ, January 2022.

[13] Source: Hamilton Lane, "Private Wealth: Staying Private for Longer Leads to Opportunity." April 2022.

Market Concentration

Some investors worry that one potential consequence of the decreasing number of stocks is market concentration. It would be reasonable to expect markets to be more concentrated if there are less stocks available. As of June 2024, the top ten stocks accounted for 29.6% of the broad US market, well above the tech-bubble peak of 20.9%. Likewise, the top 100 stocks are around 62% of total market capitalization, just above the 2000 peak of 61%.

The Shift to Private Markets

Another consideration is that if investors want to access the growth of a broader swath of companies, they may want to consider investing more in private equity. More than 85% of companies with annual revenues over $100 million are private companies.[14] Some recent analysis suggests that the return on investment for firms backed by venture capital and private equity are notably higher than those of the companies in the S&P 500.[15]

Many of the businesses in today's private markets tend to be small but profitable, with a solid track record of providing core products or services. They are often the same kind of companies that would have gone public in a previous generation. They typically reflect the broader economy more so than the largest public companies (e.g., the "Magnificent Seven") that comprise an increasing share of the US stock market, as noted above. And there appears to be a greater alignment of interests than was once the case, with private investment markets becoming long-term oriented while public markets fixate on short-term earnings.

Private markets investors appear to have noticed, and due to these trends along with other factors (e.g., the higher historical long-term returns of private equity relative to public equity), they have committed an increasing amount of capital to private equity, the AUM for which now represents more than one-third of GDP (see Figure 4).

14 Source: Bain & Company, using data from S&P Capital IQ as of December 2022 and Statistics of US Businesses as of 2017.

15 Source: NBER, B. Jovanovic et al., "Private Equity and Growth" October 2020. The authors' analysis suggest that venture and buyout equity investment of approximately 5% to 7% may contribute to growth between 14% and 21% between 2001 and 2019. See also, NBER, N. Garleau et al., "Finance in a Time of Disruptive Growth," March 2024.

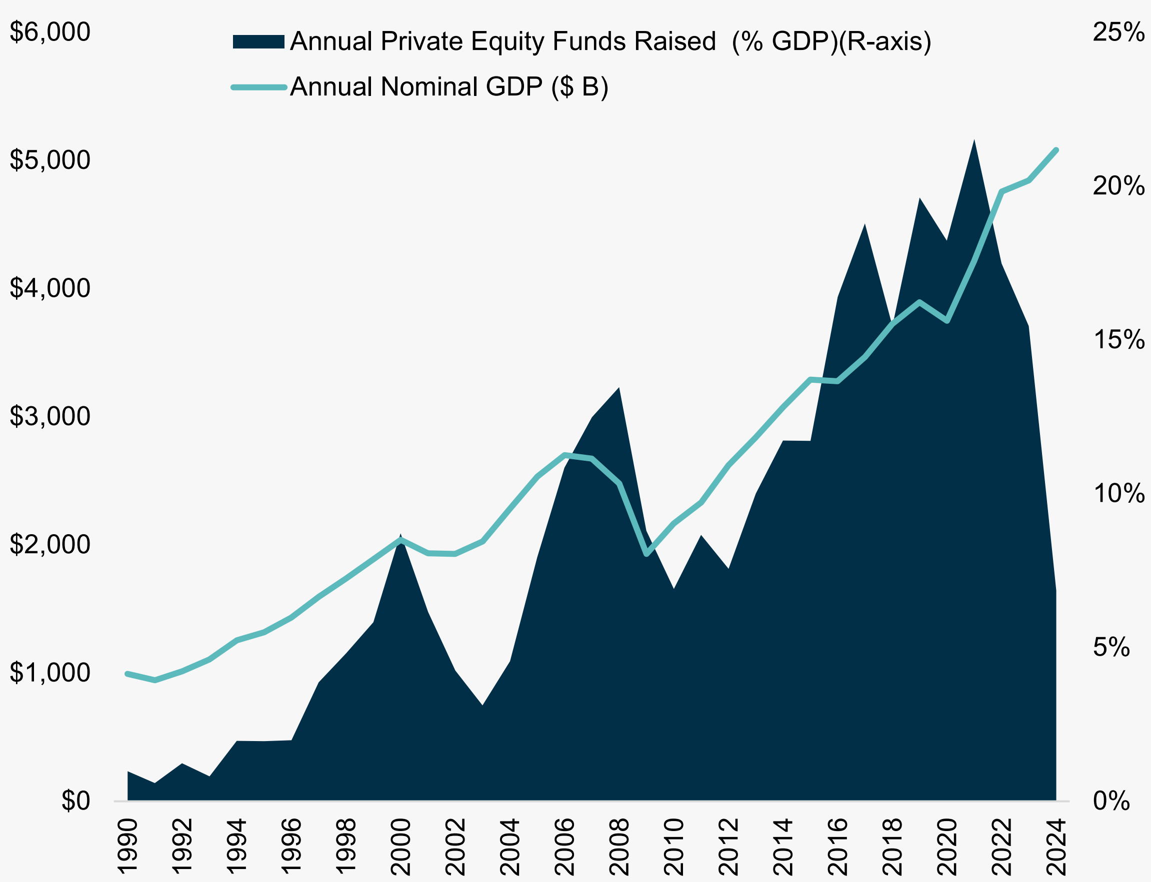

FIGURE 4

Private Equity Funds Raised as a % of US GDP

Source: FRED nominal GDP as of June 30, 2024. Prequin annual private equity fund raising as of June 30, 2024. Private equity funds raised includes venture, buyouts and growth equity.

There is no complete and reliable data set for private investments. The information is extremely limited, and most data is compiled from funds that elect to self-report and tend to be biased toward higher performing funds. Losses are underreported. Funds included in these measures lack commonality and transparency. Over time, components of the data may change. Funds may begin or cease to be represented based on these factors, thereby creating a "survivorship bias" that may additionally impact the data reported.

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Opportunities Growing in Private Equity Markets

Depending on how it is measured, the number of publicly traded companies in the US has decreased by 40-50% since its peak in 1996. The concurrent rise of private equity and changing bank regulations transformed how and when companies elect to go public.

One possible side effect is a higher level of market concentration. While there may be other fundamental reasons for a higher level of concentration in the US stock market, a smaller number of companies implies a greater possibility for it. On the bright side, the large and growing number of companies backed by private equity provides an avenue for investors to invest in many of the same type of companies that would have been public a generation ago. Investors must navigate the opportunity costs between an increasingly concentrated public equity market and allocating funds to private markets to gain exposure to newly formed and privately held companies.

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