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MARKET BRIEFING

The shrinking public market: A continuing trend

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Public vs private

Four years ago, we published an analysis on the long-term decline in the number of companies that are listed, and that are being listed annually, on public markets. We found that a collapse in the number of public stocks – in the U.S. of around 50% from a peak in 1996 to 2016 – has taken place over a period in which the volume of capital flowing into private equity has grown, with a corresponding increase in the number of privately held companies.

Among the consequences of this, we found that the remaining stock of public companies was older, larger and slower growing, while the appeal of private equity as a means to access a more diverse array of investment opportunities, especially for smaller, faster-growing companies has grown[1].

Our updated analysis finds that the headline trend of shrinkage in public markets continues. As shown in **Chart 1**, the number of companies listed in both the U.S. and Europe declined by 2.2% per annum between 2010 and 2020, with the total dipping in 2020 to 11,391 and now sitting 30% below the peak over the past decade, of close to 16,500 in 2011. Meanwhile, the number of private equity-backed companies has increased by 5.7% per annum over the same period.

Key takeaways

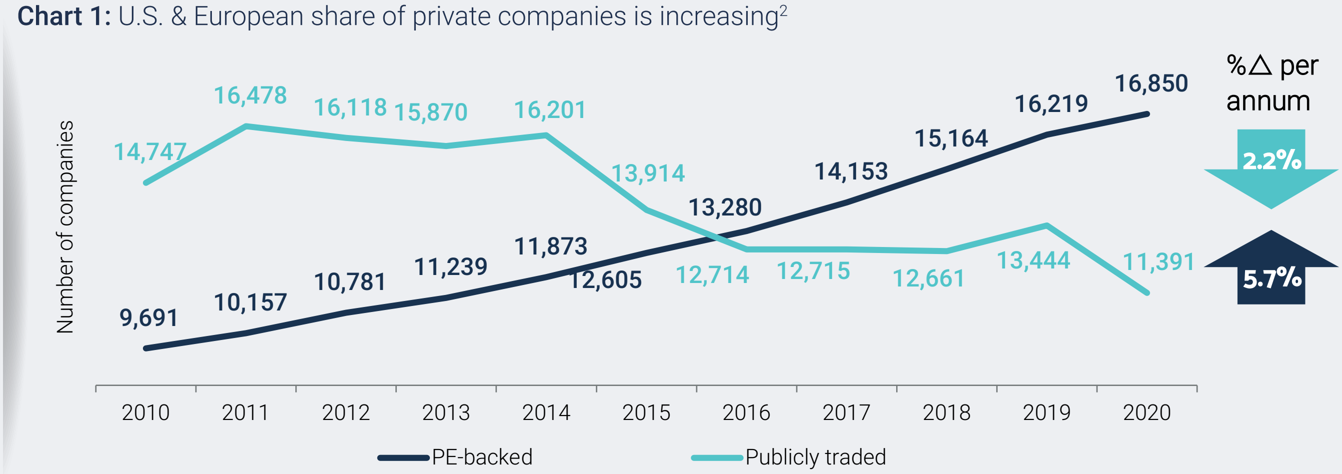
1. The number of public companies has declined over the past decade by **2.2%** p.a., while the number of companies held privately has increased by **5.7%** p.a.

2. More money has flowed into public markets – and more of the assets invested on public markets is invested passively, with market tracking funds and ETFs accounting for **40%** of public market AUM in the U.S.

3. As a result of these trends, on average companies on public markets are older, larger and slower-growing – and money invested on public markets could potentially be subject to higher volatility.

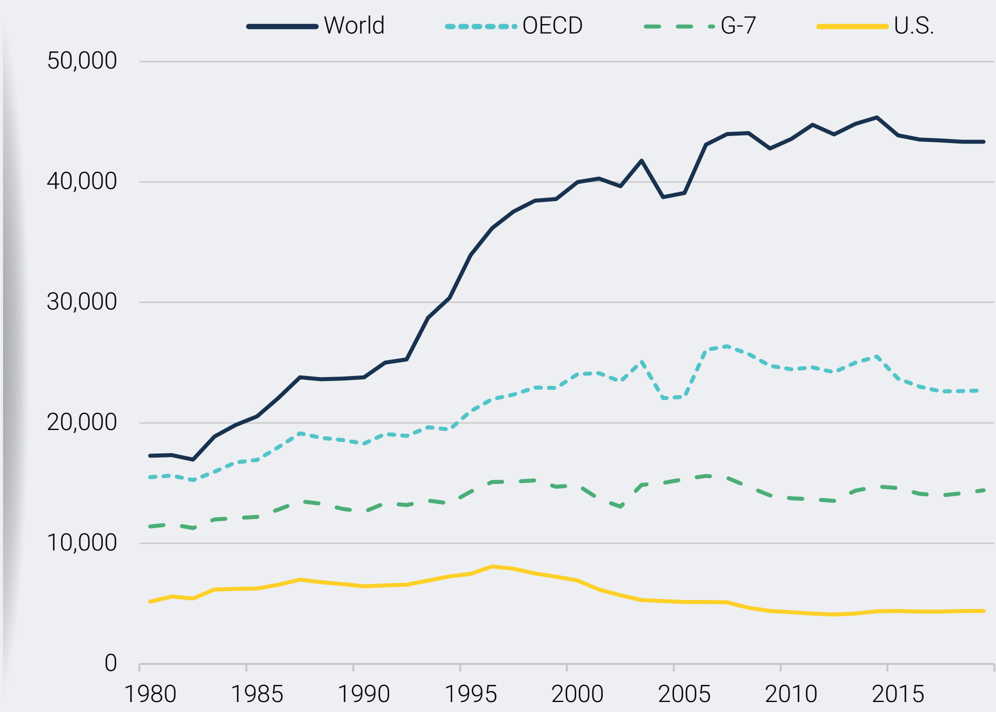
4. Many growth companies are remining private for longer, which has increased the relative attraction of private equity as means to achieve a diversified portfolio and to access fast-growing sectors and companies.

Chart 1: U.S. & European share of private companies is increasing[2]



This trend is part of a longer-term evolution. **Chart 2** shows that the number of publicly listed companies grew fairly steadily through most of the 1980s and 1990s, before starting to level-off by 2000 and, around 2014, to decline. While the declines are particularly pronounced in the U.S., which has a more mature private equity market, they are also widespread with 18 countries (including many large economies) seeing peak-to-trough declines of between 30-75% in the number of listed companies.

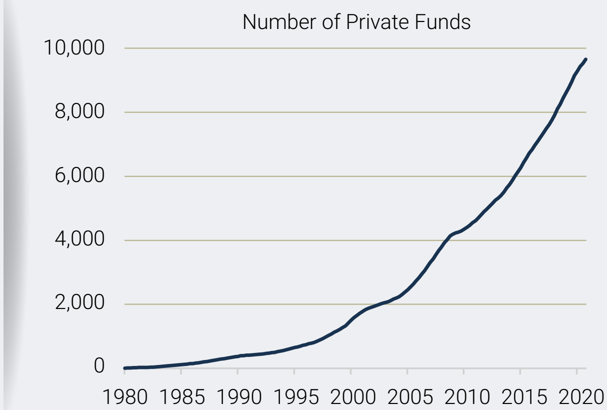
Chart 2: Global publicly listed companies and peak-to-trough decline (1980-2019)[3]



Country	% Change
Netherlands	-75.0%
Portugal	-74.7%
Russian Federation	-73.9%
Mexico	-67.9%
New Zealand	-66.7%
Argentina	-67.2%
South Africa	-63.7%
France	**-61.4%**
Belgium	-60.1%
Ireland	-57.0%
United States	**-49.3%**
Greece	-46.0%
Brazil	-48.1%
Germany	**-40.9%**
Austria	-40.2%
Denmark	-39.8%
Israel	-37.7%
United Kingdom	**-36.3%**

In contrast, **Chart 3** shows that the number of active private funds has grown exponentially from almost none in 1980 to over 9,600 by the end of 2020, while according to figures from data provider Preqin assets under management (AUM) in private funds had surpassed $6tn by June 20205. Meanwhile, according to data provider Burgiss private funds were invested in more than 25,000 separate portfolio companies at the end of 2018, which was equivalent to more than half the number of publicly listed companies globally.

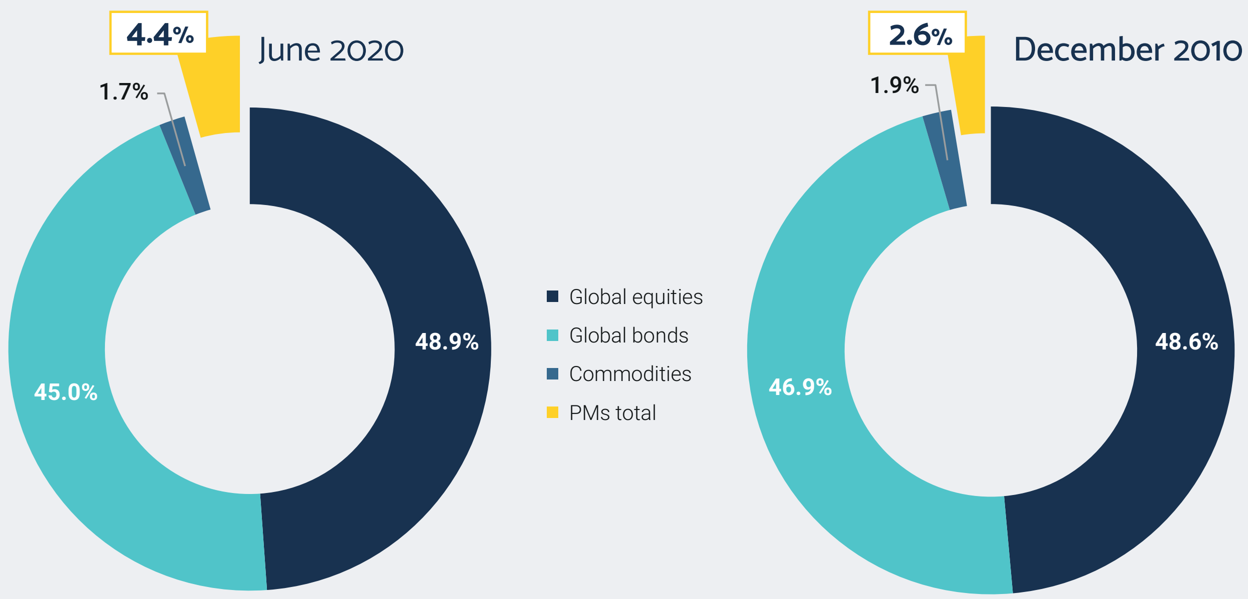
Chart 3: Private Markets (1980-2020)[4]



Investment universe

As noted above, the amount of capital invested in private market funds has been rising steadily, which, as Chart 4 shows, has equated to an increase in private markets' share of the total investment universe from 2.6% in 2010 to 4.4% in 2020. But the amount being invested in public markets has also continued to increase from an already high base, albeit at a slower pace.

Chart 4: Total universe AUM - asset class breakdown[5]



In fact, despite the decrease in listed stocks, the share of the total investment universe accounted for by global equities actually increased over the past decade, to almost 49%. As of 2020, the AUM of listed equities was 15x that of private equity, even though, as noted above, the disparity in the number of companies is much lower at around 2x.

Meanwhile, the amount of money that is being invested in public markets on a passive basis has soared. According to a study published by the Federal Reserve Bank of Boston, the share of total AUM on U.S. indices that is accounted for by passive funds and ETFs has risen from less than 2% in 1995 to more than 40% in 2020.

So, more money is being invested into public markets that now have far fewer companies listed than they did in the past, with more of this money being invested passively. Not only does this have implications for the growth profile of public investments – as we showed in our previous analysis, on average companies remaining on stock markets are older, larger and often slower growing – but it also suggests increased potential for volatility, especially in times of turbulence such as we saw in 2020 when the coronavirus pandemic hit.

Conclusions

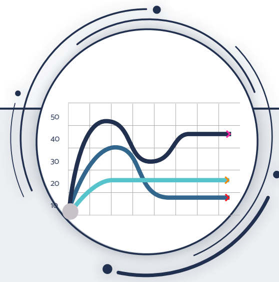
One of the main consequences of the confluence of these trends is that company owners are taking the decision to stay private for longer – and so they are doing more of their growing while in private hands.

For example, when Amazon listed in 1997, it was a three-year old company that began public market life with a $600m market capitalisation (which now stands at more than $1.7tn). Google, on the other hand, was founded in 1998, after the public market peak had passed in the U.S., and spent six years in private hands before listing in 2004 at a market cap of $28.8bn (that has now risen to $1.6tn). Facebook was founded in 2004 and took eight years to go public in 2012 at a market cap of more than $100bn (now $965bn).

More broadly, the last 30 years have witnessed a major shift in the way companies can raise capital: while public markets were traditionally the obvious source of capital for owners looking to grow their businesses, and for many they remain so, this is no longer necessarily true for all. Meanwhile, for investors seeking to ensure that their portfolios are diverse and have exposure to the broadest range of exciting growth companies and secular growth trends, having at least some exposure to private market assets could become increasingly appealing and so it is no surprise that they continue to attract more institutional investor capital.

	Capital listing	Capital listing
amazon	(1997) $600m	(2021) ▲ $1.7tn
Google	(2004) $28.8bn	(2021) ▲ $1.6tn
facebook	(2012) $100bn	(2021) ▲ $965bn

SPACs: An uncertain trend



There has been much debate in recent months over the phenomenon of special purpose acquisition companies, or SPACs. These are companies that raise money from investors through a simplified listing process, and then use that capital to purchase a company that those investors then own as a public company. That process of converting cash into an investee company is known as the “de-SPAC” event, or transaction.

According to the Institute for Private Capital[6], 248 SPACs were raised in 2020 raising $83bn of capital – a 612% increase on 2019. Meanwhile in January and February 2021 alone, 296 SPACs were raised with gross proceeds of close to $97bn. So, one might naturally infer that the number of companies on public markets overall would rise.

One key factor to consider here is that the volume of SPACs, while rising rapidly, was still comparatively small as a share of overall market activity. Moreover, the number of SPACs raised is much larger than the number of actual de-SPAC transactions completed so far. Of the 425 SPACs that have raised around $180bn in capital since December 2019, only 56 had completed a merger as of the end of April 2021.

As for the future trend, that is highly uncertain. SPACs have attracted a lot of regulatory attention, including an SEC inquiry among underwriters in March of this year, related to questions around regulatory arbitrage compared to standard IPOs, and also the poor returns being achieved by de-SPAC investors, which have averaged ~-15% since this type of investment first emerged in 2012[7].

Perhaps that was why SPAC issuance plummeted in April 2021, falling from March’s high of 109 new companies formed to just 10, according to research from CNBC[8]. Where the trend goes from here could well depend to a large extent on what regulators do next.

Endnotes

[1] Pantheon opinion.

[2] As of March 2021 reflecting YE 2020 data, including North America and Western & Northern Europe. PE-backed company data provided by Pitchbook. Publicly traded data sourced from World Federation of Exchanges database.

[3] Source: World Bank: https://data.worldbank.org/indicator/CM.MKT.LDOM.NO

[4] Source for private funds: Burgiss; source for private markets AUM: World Bank

[5] Pantheon analysis of Preqin data to June 30, 2020, accessed December 2020, Bloomberg to June 30, 2020, accessed January 2021 and Doeswijk, R.Q.; Lam, T.; and Swinkels, L. (2019): Historical returns of the market portfolio.

[6] Figures on SPAC issuance and proceeds from SPACinsider.com

[7] Gahng, Ritter and Zhang (2021): https://clsbluesky.law.columbia.edu/2021/03/11/the-lowdown-on-spacs/

[8] https://www.cnbc.com/2021/05/01/spac-slowdown-disinterest-is-misplaced-money-manager-says.html

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