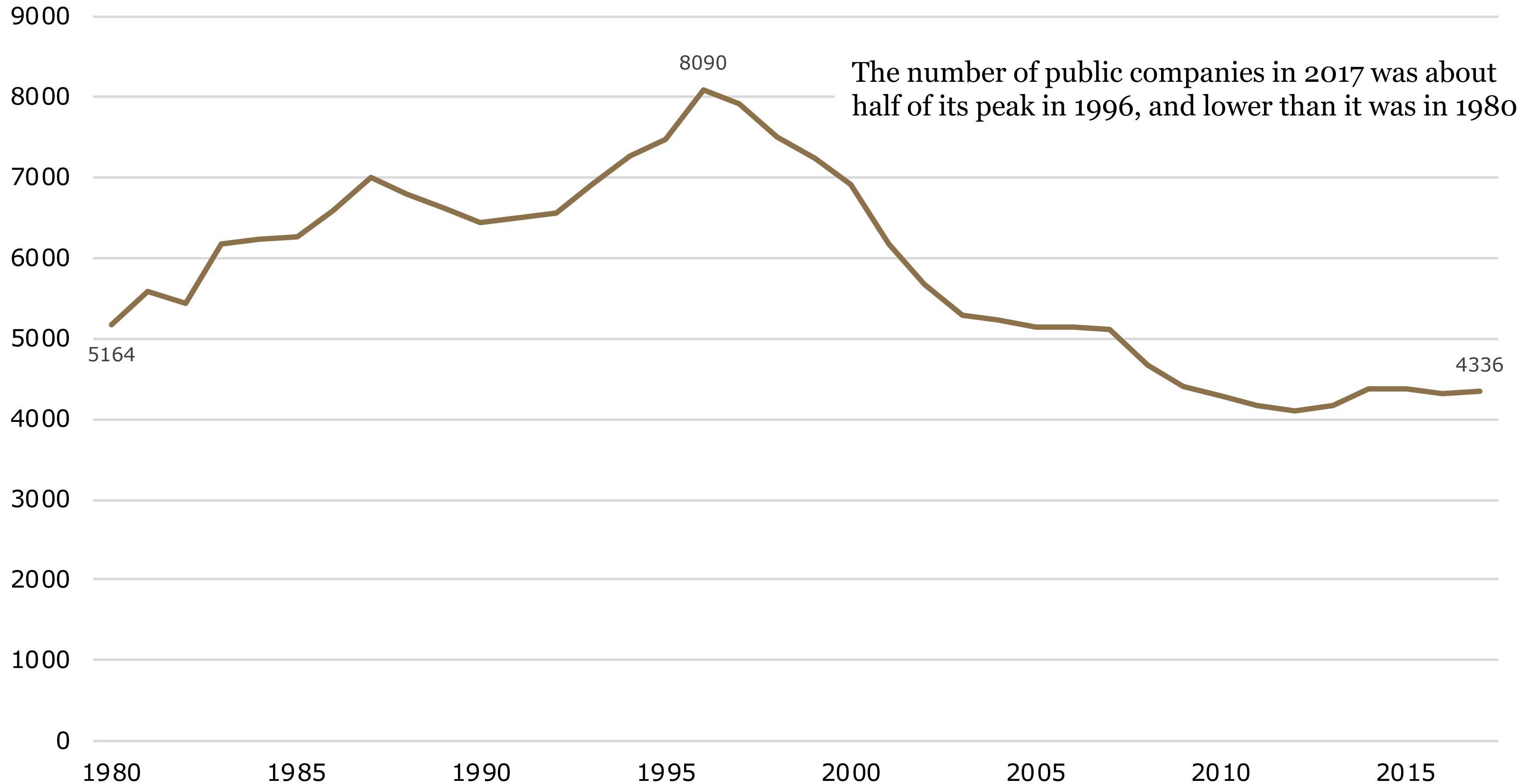
The number of companies listed on US stock exchanges has dropped since the mid-1990s

Number of publicly listed domestic companies



Sources: World Bank data

Why has the number of public companies dropped?

Private funding sources have grown

Many tech companies rely on private sources of capital, such as venture funding, to finance their expansion, rather than public markets, with almost 300 tech "unicorns" valued at over a billion dollars still held privately

Private capital sources, such as private equity funds, have grown over the past few decades, with private equity acquisitions growing rapidly: nearly 1000 were conducted in the first half of 2018, up from less than 500 in all of 1996

Some point to disclosure requirements

When discussing a take-private deal for Tesla, Elon Musk suggested that fluctuating share prices and quarterly disclosures can take a toll on businesses. President Trump similarly criticized quarterly disclosure requirements

On the other hand, some observers have argued that shareholders are generally supportive of long-term thinking at public companies, and the drop in public companies started several years before the Sarbanes-Oxley Act introduced new disclosure requirements

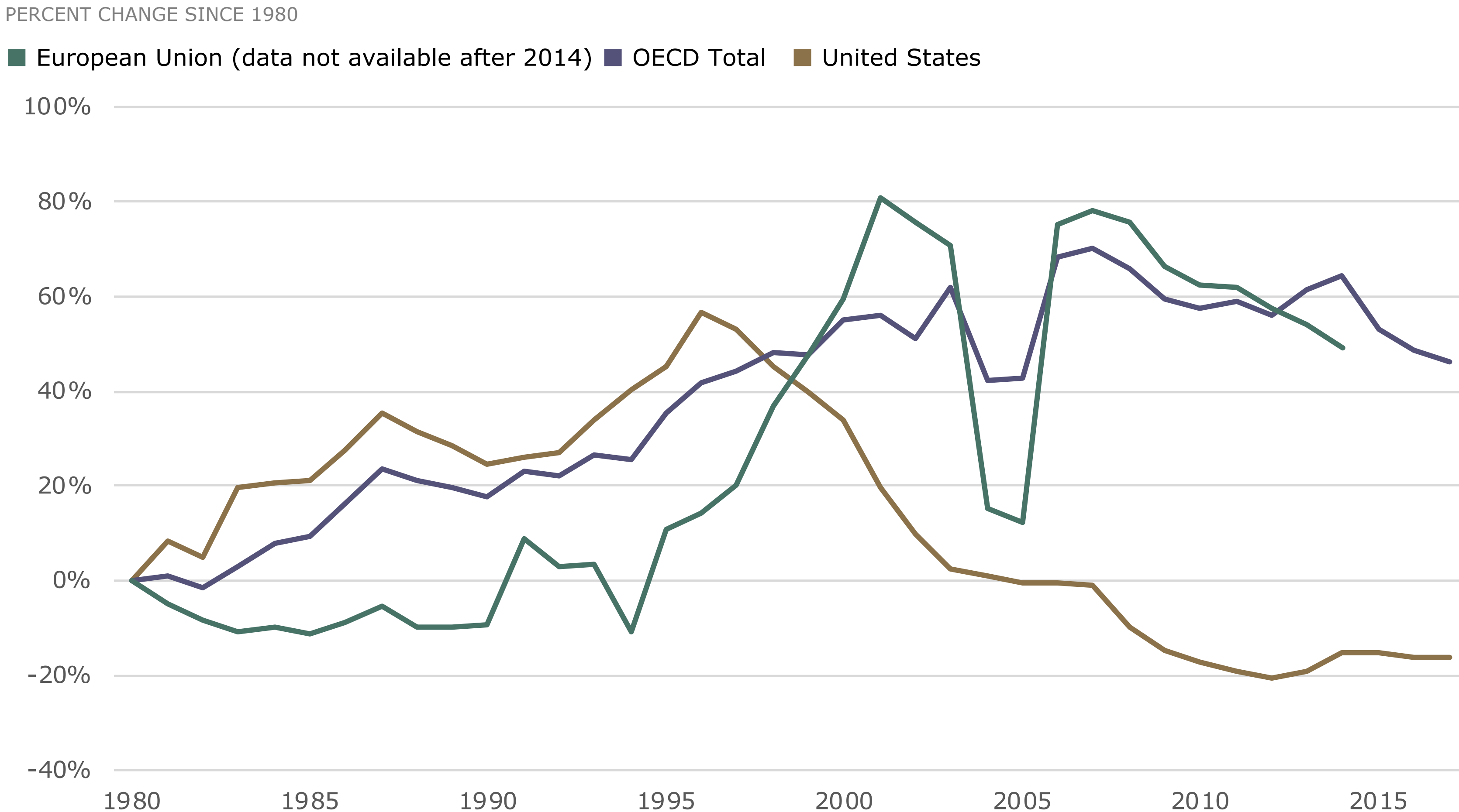
The role of tech

- Some experts have identified a link between shrinking markets and the growing role of tech companies in the economy beyond tech's reliance on private funding sources
- Tech companies rely less on physical assets like land, buildings and machines than on intangible assets like knowledge, making tech firms harder for the average investor to value and giving an extra incentive to stay private

Sources: World Bank Data, "As private-equity firms mature, the way they buy and sell is changing," *The Economist*, July 26, 2018, Rene Stulz, "The Shrinking Universe of Public Firms: Facts, Causes, and Consequences." National Bureau of Economic Research, 2018

Similar drops have occurred around the world

Other developed countries have seen similar drops in public listings, but not as pronounced as in US



Sources: World Bank Data, "As private-equity firms mature, the way they buy and sell is changing," *The Economist*, July 26, 2018, Rene Stulz, "The Shrinking Universe of Public Firms: Facts, Causes, and Consequences." National Bureau of Economic Research, 2018

How does the drop in listings change markets?

Experts have mixed views

"If you want access or have interest in access to smaller or higher growth companies, you now can't get that as much in the public market."

Brian Buenneke, partner at investment firm Pantheon

Economic implications

- Large stock markets are viewed as a sign of a healthy economy, but as the economy shifts to tech companies which list less often, this indicator may be less important
- Fewer public companies may exacerbate wealth inequality, as smaller investors are unable to buy shares in privately held companies
- Wealthier investors can often still access these private companies through family offices, private equity or venture capital

Effects on stock markets

- Some have argued that fewer companies on stock markets (and thus fewer stocks available) has boosted stock values
- Others counter that the drop has been in smaller businesses, which are off the big-company indices which have soared in recent years
- The drop in public listings has sometimes been connected to share buybacks, which would have the same effect on stock markets: decreasing outstanding shares and boosting values of those remaining

Sources: Michael Wursthorn and Gregory Zuckerman, "Fewer Listed Companies: Is That Good or Bad for Stock Markets?" *The Wall Street Journal* January 4, 2018.