IN DEPTH

INVESTORS' LAMENT: FEWER PUBLIC LISTINGS

Gusher of private capital, IPO slump and mergers reduce buying options

Out of Favor

Number of U.S. public companies

Source: University of Chicago's Center for Research in Security Prices

THE WALL STREET JOURNAL.

BY MAUREEN FARRELL

Executives at LoanCore Capital LLC were plotting an initial public offering in 2015 for a portfolio company that manages commercial real-estate credit. Just before the IPO was to launch, the stock market fell sharply. LoanCore pulled the plug.

It hardly mattered. There was plenty of money elsewhere. Last March, LoanCore raised $1 billion from two sovereign-wealth funds. The company expects to continue to raise money from these investors, Canada Pension Plan Investment Board and Singapore's GIC, according to people familiar with the matter.

LoanCore is emblematic of a new generation of companies that have shunned public markets. With interest rates hovering near record lows, big investment funds seeking higher returns are showering private companies with cash. Companies also are leaving the stock market in near-record numbers through mergers and acquisitions.

The U.S. is becoming "de-equitized," putting some of the best investing prospects out of the reach of ordinary Americans. The stock market once offered a way for average investors to buy into the

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Rare chances to beat Low money returns!

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fastest-growing companies, helping spread the nation's wealth. Since the financial crisis, the equity market has become bifurcated, with a private option available to select investors and a public one that is more of a last resort for companies.

The number of U.S.-listed companies has declined by more than 3,000 since peaking at 9,113 in 1997, according to the University of Chicago's Center for Research in Security Prices. As of June, there were 5,734 such public companies, little more than in 1982, when the economy was less than half its current size. Meanwhile, the average public company's valuation has ballooned.

Returns → Less Over excite & about IPOs

Private funding

In the technology industry, the private fundraising market now dwarfs its public counterpart. There were just 26 U.S.-listed technology IPOs last year, raising $4.3 billion, according to Dealogic. Meanwhile, private U.S. tech companies tapped the late-stage funding market 809 times last year, raising $19 billion, Dow Jones VentureSource's data show.

Private funding markets have taken on attributes of public equity, such as an ability to hand employees shares they can trade. Airbnb Inc.'s recent $850 million funding round, which valued the home-rental company at $30 billion, enabled employees to sell $200 million of stock. Investors, particularly in late-stage funding rounds, now often have a better view of a private company's financials than they used to, including through quarterly conference calls.

"There's no great advantage of being public," says Jerry Davis, a professor at the University of Michigan's Ross School of Business and author of "The Vanishing American Corporation." "The dangers of being a public company are really evident."

Public Co. investing moving to commodity status!

Among them, Mr. Davis and others say: having an investor base that clamors for short-term stock gains and being forced to disclose information that could be useful to competitors.

Company departures from public markets have left fund managers with fewer investment options. Their eagerness for more IPOs is evident in the extreme volatility of the few technology companies that made their debuts last year, investors say. Shares of Twilio Inc., Nutanix Inc. and other tech companies that made debuts last year surged well beyond their private-market values, and while most remain above those levels, many pulled back sharply from their post-IPO highs.

Brad Slingerlend, who invests almost exclusively in public companies as a portfolio manager at the Janus Global Technology Fund, often meets with entrepreneurs and seeks to convince them public markets could be their most inexpensive source of capital, while also trying to ease their concerns about listing. "There's a lot of talk that the stock market is full of big scary monsters that will kill your business," he says.

Lance Crosby founded cloud-computing company SoftLayer Technologies Inc. and built it to go public, then changed his mind and sold it to International Business Machines Corp. for roughly $2 billion in 2013. "I thought the public markets were too harsh on companies that were creating something that doesn't exist," he says, citing the then-nascent cloud-computing industry. "It's tough to answer every quarter for something when you don't have all the answers because it's still unfolding."

In 2015 he started cybersecurity-software company StackPath, raising about $180 million in private funding. He says he once again will plan for a public offering, but remains doubtful it will be the right path. "I want to change the world to fix security, and I'm not sure that's possible as a public company," he says.

Matthew Prince says in the next few years he plans to list shares of his web-security company, CloudFlare. He has mixed feelings. He says the regular financial updates he currently gives employees help them better understand how their actions affect the company. He worries U.S. securities regulations for public companies would force him to scale back such communication outside of quarterly financial reports to investors. But he also wants his investors and employees to be able to sell shares with ease, which the public market allows.

While it is difficult to quantify, there has been an explosion in private investment capital in recent years. Sovereign-wealth funds—pools of capital invested by nations—have roughly $7.4 trillion under management, more than double the $3.5 trillion they held in 2007, according to the Sovereign Wealth Fund Institute, a research and data firm. Assets under management at U.S. private-equity firms totaled $1.4 trillion, an increase of more than 30% since 2007 and nearly four times the tally in 2000, according to the most recent data from PitchBook, a data provider and research unit of Morningstar Inc.

IPO decline

Last year, 111 companies went public on U.S. exchanges, raising $24.2 billion, a dollar-volume drop of 33% from the previous year and the lowest dollar volume since 2003, according to Dealogic. The slowdown has confounded market watchers because it comes at a time when stocks are near all-time highs and M&A volume, which typically moves in tandem with IPO activity, was one of the highest years on record.

Since 2009, the number of U.S.-listed IPOs has hovered at fewer than 200 a year, on a 10-year rolling average, well below what it was in the previous decade, according to Dealogic data. Meanwhile, M&A activity targeting U.S. listed companies has risen since 2012 to more than 9,300 transactions a year, on a 10-year rolling average. Before 2012, the average ranged from 8,000 to 9,200.

With fewer places for investors to spread their cash and more companies combining, the average size of a public company in the U.S. has swelled, hitting an all-time high of $4.7 billion in 2014 before dropping slightly through the first half of 2016, according to University of Chicago data. The average public company is more than three times as large as it was in 1997, after adjusting for inflation. The inflation-adjusted total capitalization of the U.S. public market has been hovering near its peak.

BTC co. buy anyway, non-performance getting worse!

"We have to match the concentration of the market over time, so we are concentrated in fewer names," Janus's Mr. Slingerlend says.

Some investors question whether the private markets will maintain strength over the long haul and whether a pullback could bring more companies back to public ownership.

Venture-capitalist Bill Gurley sees a bubble in the private markets. He predicts investors will lose significant amounts in many closely held companies valued at $1 billion or more, which currently stand at 154, according to Dow Jones VentureSource. "History would suggest that it's a real possibility," he says.

For now, there are few signs of such a pullback. In October, Japanese internet and telecommunications giant SoftBank Group Corp. and Saudi Arabia's sovereign-wealth fund announced plans to together invest as much as $100 billion over the next five years in the technology industry, with some of it expected to go into private companies and other money to fund buyouts of public ones. That sum is nearly as much as all venture-capital firms raised since the beginning of 2014, according to PitchBook.

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Retail investors haven't had access to shares of some of the highest-value private companies, including Uber Technologies Inc., Airbnb and Snap Inc. Some of those shares have gone to clients of the wealth-management arms of large banks, typically wealthy individuals or families.

If those private companies enter the public markets in coming years as expected, average investors may miss much of the kind of rapid growth achieved by nascent public companies a decade or two ago. Amazon.com Inc., which went public in 1994 valued at $440 million, is now worth about $358 billion.

Morgan Stanley's head of private-capital markets, Ted Tobiason, says private money allows companies to enter public markets healthier. "Certain things like volatility in the business can be better handled in the private market," he says.

Matthew Prince, co-founder of CloudFlare, has mixed feelings about taking his company public.

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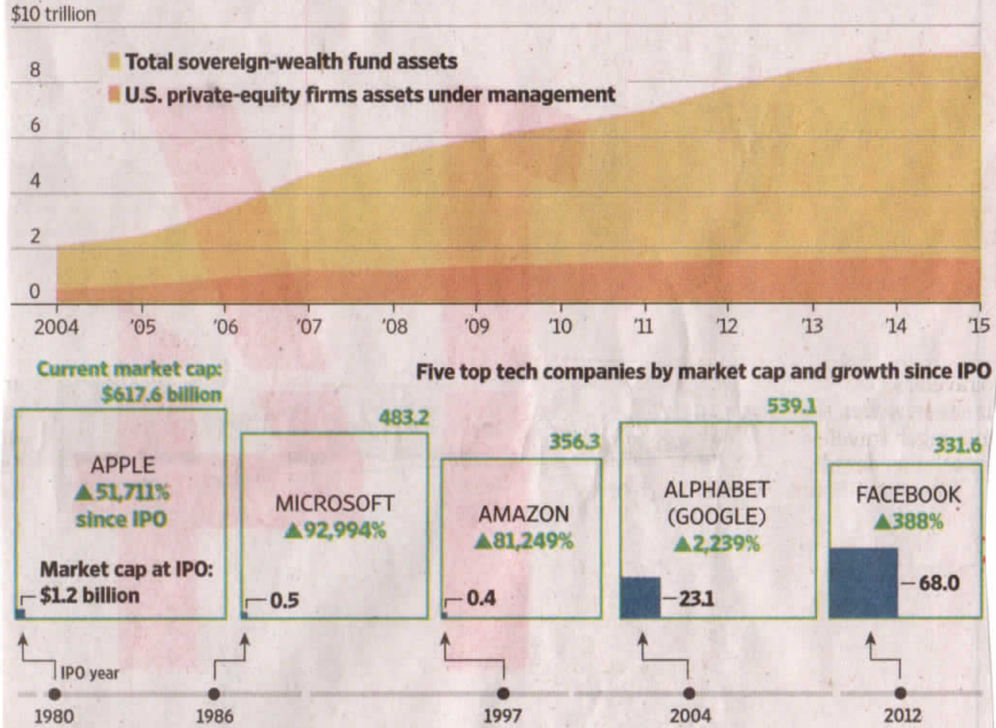
Private-Investing Climate

As more money has accumulated in private-equity firms and sovereign-wealth funds, companies are tapping them for capital and delaying going public, sometimes delivering sizable early investment gains to private rather than public investors.



Sources: Sovereign Wealth Fund Institute (assets); PitchBook (PE assets); Thomson Reuters (market cap)

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