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Going Public Has Lost Its Cachet

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When Yahoo went public in 1996–opening itself up to frenzied dot com investors– it had accomplished the bar mitzvah of business. Back then, using an initial public offering, or IPO, signified that a company was mature and ready to be open to widespread attention of the Nasdaq exchange. This year, not a single tech company has gone public.

The IPO decline is not only the tech world, though; so far this year only 29 companies have gone public. It's another sign that, given the risks and effort involved, going public just isn't the milestone anymore that it was 20 years ago. Going public opens a firm to new funding sources, but many smaller firms are looking to other methods, like private investors or being bought out by a larger company, to accumulate capital.

To Andrew Karolyi, professor of finance at Cornell University, the decrease in IPOs is part of a bigger picture. "It's a long term trend, It's a global phenomenon," he tells InsideSources. "We haven't quite figured out — people have very strong opinions about it — but I don't think we've really figured out exactly why firms are not pursuing these opportunities as much as they once were."

Karolyi has found in his own research that for small firms, there are not as many benefits to going public as there once were. "The net benefits of being a publicly listed company for smaller firms appear to be smaller than they once were."

Going public can make it hard to plan in the long run. It means a company is open to more scrutiny, because its moment-by-moment updates are available for the world to see. If you have a bad quarter, your investors might leave. Using an IPO also leaves a company open to the interests of shareholders, which can seem threatening to a manager — especially when shareholders have the ability to make a manger leave.

And all in all, going public is just a lot of work. It involves paperwork, fees, and time-intensive safe holds — notably from the Sarbanes-Oxley Act of 2002, which was put in place to hold corporations accountable and protect the public from fraudulent practices.

“The regulatory environment has just become much more burdensome over the last couple years for public companies, which is why it’s not that surprising that companies are staying private rather than going public,” said Thaya Brook Knight, Associate Director of Financial Regulation Studies at the Cato Institute, a libertarian think tank.

Karolyi said that regulations play a role, but they are not necessarily the deciding factor. “I’m not saying that it’s due to the the regulatory burden that they face but it could be,” he said. “But I suspect that it’s part of the fact that there are other opportunities for relatively smaller firms compared to larger ones in terms of pursuing a public listing. Part of those other opportunities involve private equity financing, they stem from better terms for financing via debt markets or bank lending, and so also potentially many firms are looking at the opportunity to be acquired in a private acquisition.”

In a lot of ways, the benefits of pursuing an IPO are just not there anymore.

The most profitable company to list an IPO in 2016 so far is Grupo Supervielle S.A., an Argentine bank. In its native country, the new president, Mauricio Macri, is trying to heal an unsettled economy by attracting foreign investment and curb the budget deficit.

“It’s really quiet right now. No one wants to wade in,” venture capitalist Sandy Miller of IVP said to reporters on Tuesday. He said the IPO wave may pick up again in Q3 at the earliest.

Other analysts note that the 2016 presidential election, and a climate of uncertainty, play a role.

“I do think that overall there’s this feeling among companies that it’s just not that worth it to go public, that there’s not much out there that they can’t already get through the private market,” Knight said in an interview with InsideSources.

But the jury may still be out, at least for another month. “A healthy June would absolutely be a harbinger for a healthy IPO market,” Marc Jaffe, co-chairman of the global capital-markets practice at law firm Latham & Watkins LLP, told the Wall Street Journal.