Half the Firms, Double the Profits: Public Firms' Transformation, 1996-2022

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Summary

- "[P]ublic firms, by every measure other than the number of firms, are as important in 2022 as they were in 1996."
  - Important and straightforward research question
  - Simple and effective empirical strategy (Occam's razor on steroids!)
  - Convincing result: securities overregulation does not drive decline of public listings/IPOs
- Industrial organization hypothesis
  - Intuitive reasoning
  - positive finding harder to prove empirically
- Policy implications

Talking Points

- One additional data point of potential interest for policymakers
- Securities overregulation not the driver, but a determinant (collapsing legal hypothesis into IO explanation)
- More to bolster IO explanation
- Quibbles

Market Liquidity

- Concern in regulatory/policy circles: (retail) investors get hurt
  - Distributive concern: do not participate in private welfare creation (not true)
  - But: what if public equity investments were less liquid?
    - Market turnover, bid-asks spreads, price impact measures (market-efficiency-coefficient)
    - Data available for individual securities
    - Of course, some complications are due to unrelated changes in the investment ecosystem: investment intermediaries, passive investment strategies, short sellers, etc.

The policy debate revisited

- Even though securities market overregulation may not be a first-order concern…
  - Efficiency implications may exist as a sub-current
  - IO determinants are the more powerful explanation for what we observe, but we rarely accept mono-causal explanations
  - Higher profitability, market cap, etc., of firms due to public sector reconfiguration may overcompensate losses, price deductions, etc., due to onerous securities laws
  - Profits, market cap, etc., might be even higher if it weren't for these stupid securities laws
  - Statements that U.S. securities laws are adequately calibrated not in the data

Securities laws effect on issuers

- Securities overregulation may feed into IO explanations (it's in the paper, but could be more prominent)
  - Paper discusses economies of scale and fixed regulatory costs (p. 25) looking at environmental regulation, etc.
  - Compliance with securities regulation not so different (fixed costs spread over larger unit)
  - May amplify concentration at the margin (a problem for antitrust people only?)
  - Regulation as barrier to entry for small firms well-known
  - You test for firm size
  - But smaller firms may also enjoy particularly pronounced (over)compensating benefits from being public

Net costs of securities law compliance

- Paper assumes legal costs of being public to be identical across firms in similar industries (p. 29)
- (Net) costs of being public might be more issuer-specific due to asymmetric benefits
  - Firms benefit more/less from access to public markets depending on financing needs, efficiency of price discovery
  - Variations in benefits drive variations in (net) costs
  - Somewhat in the data (firm size) b/c larger firms arguably can finance new projects internally with retained earnings
  - Yet, still, distance to public offering may vary (e.g., growth stories)

More to bolster IO explanation

- Sectors affected differently?
  - IO explanation suggests that scaling is more important in certain industries than in others
  - Anecdotal evidence that there are still early-stage IPOs, e.g. in biotech
  - Sample split using NAICS codes
- Why does IPO reconfiguration occur primarily in public firms? What is listed firms' comparative advantage?
- Coopting Disruption, Lemley and Wansley (2024): aging tech grows by killing disruptive startups, inter alia, through mergers

Quibbles

- Better access to capital for private firms (relevant also for I.O. explanation: firms can grow bigger before going public)
  - Paper mentions 1982 relaxation of Reg D, Rule 504 (issuer level registration)
  - More important arguably 1996 relaxing of ICA registration requirement (investor level)
- 1996 structural break intuitive, but not properly established
  - Increased international competition also in the 1980s (Japan, Germany)
  - 1996-1999 IPOs not particularly profitable; subsequent rise just a market correction?
  - use significantly longer time series to deal with pre-trends, see e.g. Blair (2020)

Quibbles cont'd

- Last round of revision seems to require some more editing
  - References to tables and figures don‘t fit, some data discussed in the text does not match the figures and tables
  - Figure 12 (acquisitions 1996-2022) reports in total 97% (market cap) and 72% (number of deals) of total transactions