SPINNAKER

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Where Are the IPOs?

The purpose of an initial public offering (IPO) is to gain liquidity, so that company founders can sell some of their shares, and to access liquidity in the future if that becomes necessary. However, IPOs have been declining for years, and many of today's most storied and visible companies and brands (Airbnb, Uber, etc.) cannot be accessed by most investors.

Private assets under management were less than $1 trillion in 2000. They surpassed $5 trillion in 2017. I think that there are three primary reasons for this.

Consolidation: The big companies keep getting bigger and acquiring both potential competitors and complementary businesses. The Atlantic magazine in its article entitled "The Death of the IPO" mentioned that a company like Alphabet could easily be three to five separately traded companies if it so desired – Google, YouTube, Android, Waymo, Nest, etc. Amazon is another notable example. Certainly, Amazon Retail, Whole Foods and Amazon Web Services could all stand on their own.

Access to Capital: The private equity and, specifically, venture capital industries have attracted a great deal of attention and capital from the investment community over the last decade. One of the only financial market bubbles that is plainly visible today is in the VC space via its loss-making "unicorns." A simple Google search tells me that today there are 227 private, VC-backed companies that are worth more than $1bn in the private markets. Softbank's recent launch of its Vision Fund ($100bn in venture capital) effectively doubled venture assets looking for portfolio investments.

Being a Public Company is a Royal Pain: I was struck as I listened to a Recode/Decode podcast the other day. Kara Swisher was interviewing Anne Wojicicki, the CEO of Google baby and VC-funded start-up 23andMe. Toward the end of the podcast, Kara asked Anne if the company was planning to go public soon. Anne said, "I think that being public…I don't think there's any glory in being public. I think being public is almost a last-resort option, because you lose all of your privacy. You lose so much when you must be a public company, and then you're also dealing with public analysts. Like, you have all these people just paid to spy on you and trying to get ahold of your employees and do all kinds of things. So, there's no glory. I think that what people always want is, they want liquidity. And there's all kinds of fabulous new ways these days of actually having liquidity."

Enough said. If the private market funding is available, a company like 23andMe is not going public.

As a former public market, buy-side equity analyst, I can attest to Anne's sentiment. If you are the CEO of a publicly traded company, you are spending more than half of your time traveling, speaking at conferences, prepping for and hosting quarterly earnings calls, and speaking with equity analysts rather than focusing on strategy and advancing your company.

Consequently, we do not think that this trend will reverse until we have a major market downturn and venture capital funds dry up.