Southeast Michigan sees slide in public companies

By Dustin Walsh

Southeast Michigan’s tally of publicly traded companies has fallen for the past 20 years. The blue lines refer to the number of publicly traded companies.

The ranks of Southeast Michigan publicly traded companies have been shrinking for two decades.

Twenty years ago, Southeast Michigan was home to 93 companies with publicly traded stock. That’s down to just 42 today. That 54 percent slide is slightly steeper than the 50 percent shrink that Wall Street as a whole has gone through since 1996. But the Detroit region has lost some big-name headquarters: Kmart Corp.,
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Comerica Inc., Pulte Homes and Borders Group Inc., to name a few.

The shift has many causes: companies going out of business or leaving town, a decades-long binge in mergers and acquisitions and an IPO market that has largely passed the state by.

But it also has real effects. Among them are a dampening of wealth creation and a loss of the cachet and dollars-and-cents economic impact that corporate headquarters offer.

While much of the debate can focus on the impact the Great Recession had on Southeast Michigan, the reduction in public companies is also symptomatic of fewer companies going public in the first place.

In the U.S., there were fewer than 100 IPOs this decade, compared with more than 300 annually in the late 1990s. Even with the diminished IPO market, high-profile successes that have kept Silicon Valley rolling in cash have eluded Michigan, which is lucky to see one IPO a year. Last year, there was one in Southeast Michigan: Ann Arbor-based Gemphire Therapeutics.

An IPO often brings sudden wealth to more than just the company's owners and venture capitalist backers — big IPOs often mint millionaires among rank-and-file startup employees who have received stock options as part of their compensation.

The reasons for a dampened IPO market are clear: Burdensome regulations and the availability of private investing.

For instance, the number of venture capital firms in Michigan increased to 25 with $2.2 billion in capital under management in 2015 from just seven in 2001 with $520 million of capital under management, according to the Michigan Venture Capital Association. Private equity and other private investing models have also contributed.

On the regulatory side, Congress enacted the Sarbanes-Oxley Act of 2002 to increase investor protections after the Enron scandal in 2001. But the act, which created public accounting oversight, enhanced disclosures and other accountability measures, has made it more expensive and difficult for companies to go public.

There were fewer than 100 initial public offerings last year, compared with more than 300 annually in the late 1990s. Companies remain private much longer — 9.4 years before going public today, where it was only four years in 1999.

"With more regulations, management sovereignty, more sources of funds and activist investors threatening boards, there's no desire to rush to go public," said Sudip Datta, finance professor and chair of the finance department at Wayne State University. "But this isn't necessarily good for the economy. All of these factors have created an environment where only a handful of rich folks can participate."

**Wealth creation**

Because most companies' rapid growth now occurs while they are private, the wealth creation that accompanies that growth benefits only a select few wealthy enough to be considered accredited investors.

To be an accredited investor, meaning able to invest in private companies, an individual must have a net
worth of at least $1 million, excluding the value of their primary home, or have income at least $200,000 each year for the last two years or $300,000 combined income if married, according to the U.S. Securities and Exchange Commission.

But only about 8 percent of U.S. households are even able to qualify to be accredited investors. Everybody else can invest through individual stocks, mutual funds, or by rewards from public companies that met performance metrics.

Working for a publicly traded company is often a path to investing. For example, many engineers at local auto suppliers are offered shares of the company as part of their compensation package.

But with fewer public companies, there are fewer opportunities for employees to be rewarded with shares and fewer choices for mutual funds and individual investors.

Since the 2001, stock ownership in the U.S. among most households has dropped, with households with income of more than $100,000 gaining only a single percentage point in ownership, according to a May survey by Gallup Inc. In contrast, stock ownership by households with income between $30,000 and $74,999 dropped 13 percent over the same period.

"The stock market has performed well in 2017, but proportionately fewer Americans are benefiting from today's bull market," the Gallup survey said.

The HQ effect

Erik Gordon, clinical assistant professor at the University of Michigan Ross School of Business, said the impacts of M&A activity on the public company market is most detrimental because it's led to fewer local headquarters.

"One of the ways we ended up with fewer public companies in Southeast Michigan is through acquisition, or the company going out of business," Gordon said. "Kmart goes, and a whole lot of things go with it."

When Kmart merged with Sears in 2006, it relocated its corporate offices to Hoffman Estates, Ill., in suburban Chicago, taking with it thousands of jobs and leaving behind a mammoth building in Troy.

Headquarters are important because they have an economic multiplier of 3.5, according to the U.S. Bureau of Economic Analysis. Meaning for every one job created at a headquarters, 2.5 new jobs are created in support of the headquarters, such as accountants, lawyers and other service providers.

But public companies hire more than contractors, particularly when they launch an IPO earlier, Datta said.

"When companies go public, they hire more workers to meet expectations of growth," Datta said. "If they go public later, most of their growth has already happened, so the job creation is less in that process."

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