Public company

Not to be confused with publicly owned company.

A **public**, **publicly traded**, **publicly held company**, or **public corporation** is a corporation whose ownership is dispersed among the general public in many shares of stock which are freely traded on a stock exchange or in over the counter markets. In some jurisdictions, public companies over a certain size must be listed on an exchange.

History

The first company to issue shares is generally held to be the Dutch East India Company in 1601, but quasi-corporate entities, often trading or shipping concerns, are known to have existed as far back as Roman times.

Securities of a company

Usually, the securities of a publicly traded company are owned by many investors while the shares of a privately held company are owned by relatively few shareholders. A company with many shareholders is not necessarily a publicly traded company. In the United States, in some instances, companies with over 500 shareholders may be required to report under the Securities Exchange Act of 1934; companies that report under the 1934 Act are generally deemed public companies.

Advantages

Publicly traded companies are able to raise funds and capital through the sale (in the primary or secondary market) of their securities, whether debt or equity. This is the reason publicly traded corporations are important; prior to their existence, it was very difficult to obtain large amounts of capital for private enterprises. The profit on stock or bonds is gained in form of dividend or capital gain to the holders of such securities.

The financial media and analysts will be able to access additional information about the business.

The owners are able to share risks by selling shares to the public. If he holds 100% of the share, he will pay all the debt, however, if he holds 50%, he only needs to pay 50% of the debt. It increases the asset liquidity and the company does not need to depend on fund from the bank. It improves the transparency of company information by releasing annual account report and transaction record. The company may be better known to the public,or increase its popularity. If some shares are given to the managers, the conflicts between managers and shareholders, the principal-agent problem, will be remitted.

Disadvantages

Many stock exchanges require that publicly traded companies have their accounts regularly audited by outside auditors, and then publish the accounts to their shareholders. Besides the cost, this may make useful information available to competitors. Various other annual and quarterly reports are also required by law. In the United States, the Sarbanes–Oxley Act imposes additional requirements. The requirement for audited books is not imposed by the exchange known as OTC Pink.[1][2] The shares may be maliciously held by outside shareholders and the original founders or owners may lose benefits and control. The principal-agent problem, or the agency problem is a key weakness of public company. The separation of company's ownership and control is especially prevalent in such countries as U.K and U.S.

Stockholders

In the United States, the Securities and Exchange Commission requires that firms whose stock is traded publicly report their major shareholders each year.[3] The reports identify all institutional shareholders (primarily, firms owning stock in other companies), all company officials who own shares in their firm, and any individual or institution owning more than 5% of the firm's stock.[3]

General trend

For many years, newly created companies were privately held but held initial public offering to become publicly traded company or to be acquired by another company if they became larger and more profitable or had promising prospects. More infrequently, some companies—such as investment banking firm Goldman Sachs and logistics services provider United Parcel Service (UPS) -- chose to remain privately held for a long period of time after maturity into a profitable company.

However, from 1997 to 2012, the number of corporations publicly traded on American stock exchanges dropped 44%.[4] According to one observer (Gerald F. Davis), "public corporations have become less concentrated, less integrated, less interconnected at the top, shorter lived, less remunerative for average investors, and less prevalent since the turn of the 21st century".[5] Davis argues that technological changes such as the decline in price and increasing power, quality and flexibility of computer Numerical control machines and newer digitally enabled tools such as 3D printing will lead to smaller and more local organization of production.[5]

Privatization

A group of private investors or another company that is privately held can buy out the shareholders of a public company, taking the company private. This is typically done through a leveraged buyout and occurs when the buyers believe the securities have been undervalued by investors. In some cases, public companies that are in severe financial distress may also approach a private company or companies to take over ownership and management of the company. One way of doing this would be to make a rights issue designed to enable the new investor to acquire a supermajority. With a super-majority, the company could then be relisted, i.e. privatized.

Alternatively, a publicly traded company may be purchased by one or more other publicly traded companies, with the target company becoming either a subsidiary or joint venture of the purchaser(s), or ceasing to exist as a separate entity, its former shareholders receiving compensation in the form of either cash, shares in the purchasing company or a combination of both. When the compensation is primarily shares then the deal is often considered a merger. Subsidiaries and joint ventures can also be created *de novo* — this often happens in the financial sector. Subsidiaries and joint ventures of publicly traded companies are not generally considered to be privately held companies (even though they themselves are not publicly traded) and are generally subject to the same reporting requirements as publicly traded companies. Finally, shares in subsidiaries and joint ventures can be (re)-offered to the public at any time — firms that are sold in this manner are called spin-outs.

Most industrialized jurisdictions have enacted laws and regulations that detail the steps that prospective owners (public or private) must undertake if they wish to take over a publicly traded corporation. This often entails the would-be buyer(s) making a formal offer for each share of the company to shareholders. Normally some form of supermajority is required for this sort of the offer to be approved, but once it happens then usually all shareholders are compelled to sell at the agreed-upon price and the company either becomes a subsidiary, ceases to exist, or becomes privately held.

Trading and valuation

The shares of a publicly traded company are often traded on a stock exchange. The value or "size" of a company is called its market capitalization, a term which is often shortened to "market cap". This is calculated as the number of shares outstanding (as opposed to authorized but not necessarily issued) times the price per share. For example, a company with two million shares outstanding and a price per share of US$40 has a market capitalization of US$80 million. However, a company's market capitalization should not be confused with the fair market value of the company as a whole since the price per share are influenced by other factors such as the volume of shares traded. Low trading volume can cause artificially low prices for securities, due to investors being apprehensive of investing in a company they perceive as possibly lacking liquidity.

For example, if all shareholders were to simultaneously try to sell their shares in the open market, this would immediately create downward pressure on the price for which the share is traded unless there were an equal number of buyers willing to purchase the security at the price the sellers demand. So, sellers would have to either reduce their price or choose not to sell. Thus, the number of trades in a given period of time, commonly referred to as the "volume" is important when determining how well a company's market capitalization reflects true fair market value of the company as a whole. The higher the volume, the more the fair market value of the company is likely to be reflected by its market capitalization.

Another example of the impact of volume on the accuracy of market capitalization is when a company has little or no trading activity and the market price is simply the price at which the most recent trade took place, which could be days or weeks ago. This occurs when there are no buyers willing to purchase the securities at the price being offered by the sellers and there are no sellers willing to sell at the price the buyers are willing to pay. While this is rare when the company is traded on a major stock exchange, it is not uncommon when shares are traded over-the-counter (OTC). Since individual buyers and sellers need to incorporate news about the company into their purchasing decisions, a security with an imbalance of buyers or sellers may not feel the full affects of recent news.

See also

- Crown corporation
- Government agency
- Non-departmental public body
- Public bodies
- plc, public company under UK legislation
- Publicly unlisted company
- Regulatory agency
- Statutory authority
- Statutory corporation
- Success trap
- UK company law

References

1. ↑ "Investopedia".
2. ↑ "OTCMarkets.com".
3. 1 2 "Myth #5. The Federal Reserve is owned and controlled by foreigners.". *Political Research Associates*. Retrieved 2008-11-23.

4. ↑ "Is it time to rethink public corporations?". Minnesota Public Radio News. 14 November 2012.
5. 1 2 Gerald F. Davis. "Re-imagining the corporation" (PDF). Ross School of Business, University of Michigan.

An overview of corporate goverance in European countries