The current state of the IPO market: challenges remain but outlook brightens

The past year has been one of the most challenging for the global IPO markets since the 2008 global financial crisis. Rising interest rates constrained liquidity, investors were cautious, and choppy stock market valuations caused potential IPO candidates to put their listing ambitions on hold, hoping for an improvement in market conditions. There are signs that a rebound in IPO volume is in the cards for this year, with interest rates peaking and stock markets around the world rallying during the early months of 2024. There were 290 IPOs globally in Q1 2024, with a combined deal value of $23bn.

The current state of the global IPO market

In the past couple of years, high interest rates and uncertainty over equities have cratered the IPO market in the US and Europe. According to data compiled by Bloomberg, in 2023, the New York Stock Exchange and Nasdaq suffered an astonishing 91% and 94% declines in volume, respectively, compared to 2021. However, this was still more favourable than the Sao Paulo exchange and Euronext Amsterdam – each recorded over $11bn in volume in 2021 yet concluded the previous year with no new offerings. In this period, exchanges in Asia have performed comparatively well. While Tokyo notched a relatively mild 36% decline, the biggest winners in terms of volume were China's Shanghai and Hong Kong exchanges, which accounted for almost $55bn of the total global total of $138bn in 2023.

In the first quarter of 2024, the global IPO count fell by 7% compared to the same period in the previous year. Still, the proceeds were up by the same percentage, indicating a move towards fewer but larger deal sizes and reflecting renewed confidence among issuers and investors. This movement suggests a better alignment between buyers and sellers about company valuations. On the one hand, sellers have adjusted their valuation expectations downwards, matching the uncertain market's reality. On the other, buyers are increasingly confident about investing in stocks and are pricing in the expected rate cuts later this year.

The Americas and EMEIA IPO markets have recovered, with a standout performance in India, where IPOs surged. This rebound comes despite the recent challenges posed by geopolitical tensions in the Middle East and global economic turmoil. Additionally, there is increasing anticipation for IPO exits, particularly among private equity-backed firms, after a two-year-long retreat from public markets dealmaking due to harsh macroeconomic factors. Falling valuations and tighter credit markets have forced firms to keep assets longer than typical five-year investment cycles. This slowdown in sales has negatively impacted firms' ability to raise money from investors, who have become reluctant to commit to new funds before seeing returns from previous vehicles. In Q1 2024, approximately ten PE-backed IPOs came to the markets, five of which were among the top 10 global IPOs. Moreover, several other exit plans by IPO have been disclosed by PE firms, including KKR [NYSE: KKR], which has rebooted exit plans for BMC Software more than a year after confidentially filing to take the IT software – bought in 2018 for $8.3bn – business public. Median deal sizes and valuations have outpaced non-PE offerings, a trend likely to continue as markets gain momentum.

The uncertainty and volatility of the rates scenario were caution factors in early 2024. The consensus is that rates will be higher for longer, and this consistency will help investors plan and return to the capital markets. Q2 is expected to expand the steady recovery from smaller-scale IPOs (sub $10bn), whereas more prominent companies may remain on the sidelines. This is because this type of enterprise has cash and private markets open for them, which means they are not in a rush and can afford to wait for a less volatile post-election period to come to markets.

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

Copyright © 2024 BSIC | Bocconi Students Investment Club

Current market trends mainly include the technology (AI-related) and healthcare (GLP-1) sectors. Alongside industrials and consumers, these were the top IPO sectors by number and demonstrated the most significant improvement in after-market performance compared to Q1 2023. Conversely, the financial sector witnessed a substantial decrease in the number of well-performing IPOs, primarily due to the poor performance of small-scale offerings.

Finally, it is important to state that post-IPO stock performance will be key in setting the tone for what's coming next. Several of the largest recent deals are trading above their IPO prices in the US. Astera Labs Inc. [NASDAQ: ALAB], which raised $820m in March, has nearly doubled its IPO price, while Reddit's [NYSE: RDDT] shares rose as much as 92% after its $860m IPO before paring some of the gains. UL Solutions Inc. [NYSE: ULS], whose listing raised $946m earlier this month, is up more than 20%. In Europe, Galderma [SW: GALD] — the largest listing this year — raised $2.6bn in Zurich and is trading about 19% above its IPO price.

Focus on the US IPO market

The capital markets in the United States saw a 230% increase in their IPO proceeds YOY to $8.4bn, and NASDAQ and NYSE represented 36% of the global IPO proceeds in Q1 of 2024. This resulted from significantly larger deals and a 48% increase in IPOs compared to Q1 2023. Among these 49 IPOs, the healthcare and technology sectors continued to represent most of the activity, with biotechnology companies raising $1.5bn across nine deals. At this time, investors are increasingly seeking tangible proof of the potential impact of AI-related companies. Moreover, other significant IPOs in the US include the consumer products company Amer Sports Inc. [NYSE: AS], which raised $1.37bn, and American Healthcare REIT Inc [NYSE: AHR], which raised $672m. Both deals were finalized in February and are trading above the IPO price.

More recently, American equity markets have rallied to record highs, contrasting sharply with previous years of market lows, suggesting a rise in optimism about an IPO market rebound. Upcoming IPOs are closely watched for their after-market performance, which will serve as a critical barometer for market conditions. Despite potential distractions from the US presidential election, historical trends show that IPO volumes have not notably deviated from averages in election years.

Focus on the EMEA market

European IPOs are set for a comeback in 2024 after nine difficult quarters. With an incredible amount of dry powder in the economy and, so far, a solid economic comeback from the Covid crisis, experts like the CEO of the Swiss stock exchange are publicly expressing their optimism that a revival is underway. We are already beginning to see this phenomenon with a handful of big companies powering the EMEA markets. The total value of IPOs announced this year is $5.7bn, more than double that reached in the first quarter of 2023. Last month, two prominent private equity-backed companies, Galderma [SWX: GALD] and Douglas [XETRA: DOU], went public, signalling a positive outlook on the current market conditions.

Even with these strong steps forward, some believe the current macroeconomic conditions could be seen as a litmus test for the IPO market. While Renault SA has decided to cancel plans to list its EV unit Ampere, CVC, the Dutch private equity giant, will take a run at the public markets for a third time, seeking a valuation of roughly $1.3bn. The two biggest European IPOs in Q1 of 2024, German defense contractor Renk [XETRA: R3NK] and Athens International Airport [ATHEX: AIA], witnessed a jump in share prices following the listing date, with Renk doing especially well, almost doubling its issue price of €15 per share since February.

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

Copyright © 2024 BSIC | Bocconi Students Investment Club

In a period where some of the major US stock indices have reached multiple all-time highs, their European counterparts have not been doing too badly themselves. Germany's DAX and France's CAC 40 both hit record highs, while the broad Stoxx Europe 600 index is up almost 20% since the start of 2023. Considering these conditions, it might be just the right time to unlock this dry powder in the market. Furthermore, private equity firms have been left with $3.2tn in unsold assets, and many might try to exit their positions as soon as they feel they will get a satisfying valuation. The right time could be now, as central banks are signaling an end to interest rate hikes, but we will only know when more PE firms will follow CVC and EQT's footsteps.

Tired of their long-time held positions, EQT and CVC listed two of their portfolio companies: Galderma and Douglas, respectively. In fact, after Renk's positive debut on the IPO market, Douglas and Galderma both accelerated their IPO process, trying to go public in this immediate good boost for the IPO market. Douglas, a German beauty retailer owned by CVC and the Kreke family, raised €850m ($920m) to pay off debt. Douglas's shares, initially priced at €26, fell as low as €22.7, with a 13% crash in the first two days. Douglas was not quite the success story that European investors had hoped for. The company was acquired by CVC more than nine years ago and was kept by the PE firm almost double the usual hold time for European mid-sized private equity investments. Investors perceived Douglas to be too indebted to take public, and the company had always been on the brink of financial distress, with its equity value once going below €3bn, even after the Kreke family had injected €300m.

Galderma witnessed a very different outcome. The EQT-backed prescription drug and aesthetic solutions brand raised roughly $2.23bn on the SIX Swiss Exchange, up 21% from its IPO price in its maiden session. Galderma offered pure exposure to dermatology, had robust growth prospects, and, valued at CHF12bn ($13.1bn), it seemed an overall better-quality deal than Douglas.

Focus on the London Stock Exchange

Under the Western wave of privatization of the 1980s, the London Stock Exchange became a powering force in the global free-market economy, known as the world's financial capital at the time. Nowadays, these perceptions have changed. Trading volume has slumped in recent years, there is less liquidity in the market compared to its American counterpart, and many companies are moving away from the LSE due to low valuations in the wake of Brexit and overall economic and financial rut. Combined, all the IPOs on the LSE in 2023 only raised $1bn, the lowest number since 2009. The MSCI UK index pointed out that stocks, on average, traded at a 46% discount compared to the ones on the NYSE based on price-to-earnings ratios. The current total market capitalization of London's listed equities is $3tn resulting in Paris overtaking London as Europe's largest stock market.

Being only the seventh biggest stock exchange in the world and having highly undervalued stocks, it becomes challenging for the LSE to convince companies to list on its exchange. When it gets a high-profile listing, there is significant pressure on it to perform well. However, the last few high-profile listings on the exchange, like Deliveroo [LSE: ROO] and Dr. Martens [LSE: DOCS], have performed below expectations. This undervaluation and lack of performance also worry the companies already listed in London. For example, Shell, the largest company on the exchange with a market cap of over $250bn, is threatening to leave. This move would pose a dangerous precedent and threaten to scrap London's viability to compete with other stock exchanges worldwide. Shell's chief executive said that Shell suffers a significant discount compared to its New York-listed rivals like Chevron and ExxonMobil and that the company would consider fetching a higher valuation in another market. This would not be the first time a British company crossed the pond to the Americas in search of a different place to be public. In fact, Arm Holdings disdained the London Stock Exchange, choosing to go public in New York in search of a higher valuation mainly due to the strict regulations in London.

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

Copyright © 2024 BSIC | Bocconi Students Investment Club

In December 2023, London announced it would loosen its regulations to support the LSE in better competing against New York and the other European centres. Authorities are working to strengthen the attractiveness of the UK capital markets, knowing that if they cannot offer a higher valuation, they certainly cannot afford not to be attractive to companies from a regulatory and bureaucratic perspective. These rules focus on facilitating companies in listing on the exchange and helping companies carry out more activities without forcing them to carry out shareholder votes (one of the main reasons Arm did not list in London, allegedly).

Focus on the Asian market

Over the past few years, the Hong Kong stock market has kept its bankers extremely busy, as Chinese companies, not wanting to be listed on the US stock markets, ran to the HKEX. In 2020, despite the COVID pandemic, HKEX raised $51bn in capital compared to the £9.2bn ($11.3bn at the time) raised through IPOs on the LSE. Yet this prominent stock exchange has recently encountered issues as companies are trading at discounts compared to Europe and the US, mainly due to the recent Chinese crisis. Over the last twelve months, the HSEX has been the worst-performing major stock exchange. This led to a significant uptick in take-private deals for companies looking to fetch higher valuations and restructure properly elsewhere. Companies in Hong Kong are incredibly cheap and are considering selling or listing elsewhere with higher multiples, as the HSEX index trades at 1.1 times net assets on average, 60% lower than the MSCI World Index's 2.9 trading level. For example, truck manufacturer CIMC offered HK$ 1.1bn ($140m) to buy back all its listed shares not held by major shareholders and delist. Also Li Ning [HKEX: 2331] plans to take the company private after a 70% decline. While these delistings may be voluntary, stricter regulations have also led to several expulsions, as the HSEX delisted 47 companies in 2023, 34 of which were forced to delist.

Similarly to London, Hong Kong is pressured to reclaim its title as Asia's financial centre with an unprecedented lack of deal flow and activity in the market. 2024 is poised to be the worst year for Hong Kong IPOs since 2001. In 2023, it raised only $4.6bn through IPOs, down nearly 85% from its 10-year average of $31bn.

Major global brands are the most incentivized to delist from Hong Kong due to their international presence, which makes it easier for them to enter new capital markets and worry less about garnering attention and fetching a stronger valuation than smaller enterprises. Two companies making this move are the beauty brand L'Occitane [HKEX: 0973] and the luggage manufacturer Samsonite [HKEX: 1910]. Both these companies have been performing well financially and operationally, meaning that they could fetch a high valuation at a premium elsewhere, and they would have negotiating power to delist. While the size of the deals is not yet confirmed, both potential transactions could surpass the biggest ever buyout deal in Hong Kong: the $5.8bn transaction for Belle International in 2017.

On March 22nd, Samsonite announced its plan to pursue a dual listing to raise its valuation and entice suitors to proceed with a buyout of the company. The Luxembourg-based company had already received previous interest from American private equity companies and expects some of them will agree to a buyout. Samsonite is desperately looking to leave the market as one of the least liquid stocks in Hong Kong. Buyout speculation alone has pushed the stock price roughly one-fifth higher this year, and this increase in valuation could be just what Samsonite is looking for.

In the meantime, L'Occitane is eyeing up a second attempt at a take-private deal just a few months after a shelved buyout attempt. This time, Austrian billionaire Reinold Geiger has halted trading for shares in the company and is more optimistic about the deal, partnering with Blackstone to receive financing to take the Hong Kong-listed company private. The company was at HK$29.5 per share at Monday's market close. In August, the company stated it would take nothing less than HK$26.0 per share in a deal, fetching a valuation of roughly $5.5bn. The

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

Copyright © 2024 BSIC | Bocconi Students Investment Club

outcome of these deals is yet to be determined. Still, they do not indicate good times ahead for the Hong Kong stock exchange.

Outlook

Although interest rates remain elevated and geopolitical risk continues to loom large, there is a building sense of confidence among investors, advisers, and companies that after a challenging year, better days lie ahead for IPOs in 2024 and beyond. Businesses on the defensive are gradually shifting their strategic focus back to growth and eyeing IPOs to fund their plans, while private equity firms are lining up IPO candidates to start clearing the backlog of unexited assets accumulated during the past two years. Moreover, IPO candidates in select jurisdictions will benefit from the steps regulators are taking to make their listing regimes more attractive, with investors and businesses welcoming the reforms in the UK and Hong Kong as they aim to attract more IPOs. No one is getting carried away, but after a tough 2023, it is safe to say that global IPO markets are in a much stronger position today than a year ago.

TAGS: IPOs, Stocks, Private Equity, US, Asia, Europe

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

Copyright © 2024 BSIC | Bocconi Students Investment Club