

What will it take for the IPO market to return?

EY US IPO Trends 2023 – Q1 report



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Q1 2023 IPO markets slowed with 33 IPOs on US exchanges, but optimism remains for the remainder of 2023.

In brief:

01

In Q1 2023, both the number of IPOs in the US and the amount of proceeds raised were generally in line with Q1 2022, but they were well below levels seen in comparable periods over the last decade.

02

For the US IPO market to rebound, the first wave of IPOs will need to come to market at reasonable valuations, price well compared to their marketing ranges, and trade well in the aftermarket.

03

In light of the prevailing market uncertainty, companies should focus on cash flows, profitability and liquidity, as well as strategically preparing for open market windows.

Authors

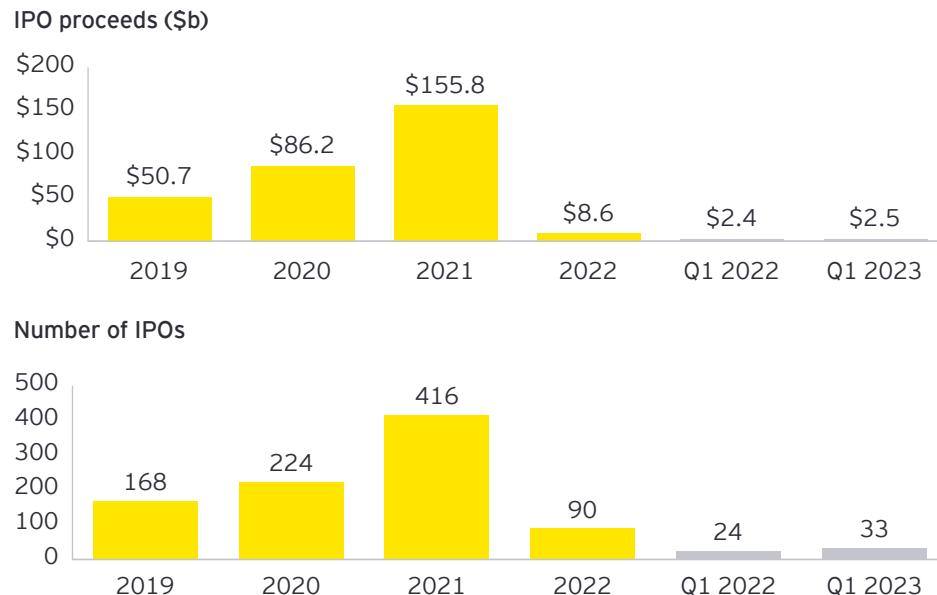
Rachel Gerring

EY Americas IPO Leader
Ernst & Young LLP

Mark Schwartz

IPO and SPAC Advisory Leader
Ernst & Young LLP

US IPO deal count and proceeds



Sources: EY analysis, Dealogic
Data as of March 31, 2023

In Q1, there were 33 IPOs on US exchanges. Only eight of the US IPOs raised more than \$50m, and the largest US IPO raised just over \$700m. While there was some optimism that deal activity would rebound at the beginning of the quarter, the pace of transactions began to slow in February, when audits went stale, and never picked back up in March.

Despite the ongoing uncertainty around the macroeconomic and geopolitical environment, the IPO pipeline continues to build, and a number of key factors provide hope for a turnaround later this year.

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IPO activity has been light so far this year, but we are encouraged by some signs of stabilization or improvement in inflation readings, market volatility, earnings estimates and valuation multiples. Greater clarity and certainty in these areas could provide a stronger backdrop for a return of the IPO market as soon as later this year.

Mark Schwartz

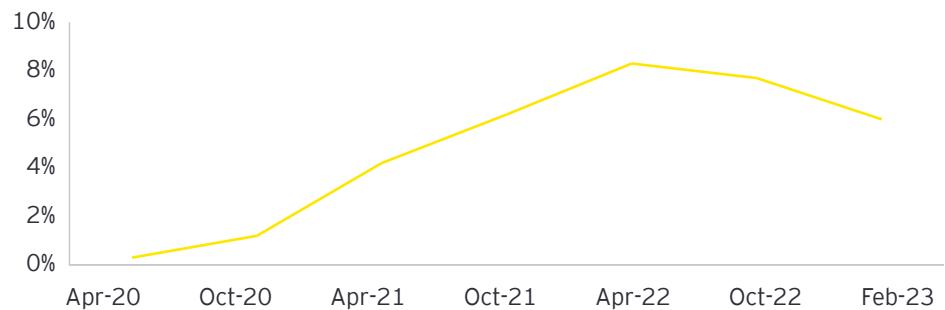
EY Americas IPO and SPAC Advisory Leader



Six factors that could improve the IPO market backdrop

1. Inflation moderating or declining

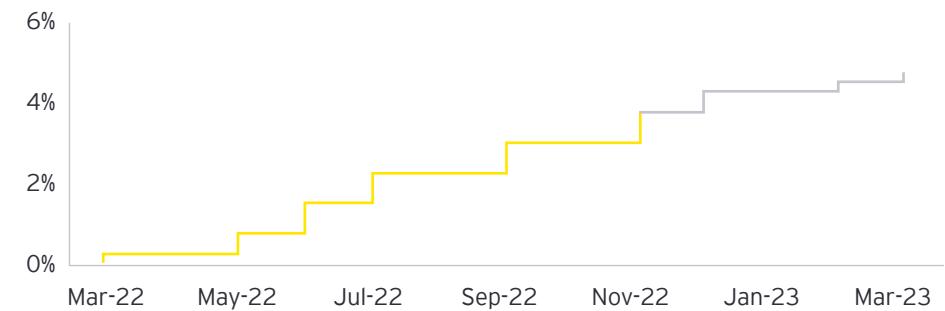
Consumer Price Index



Source: OECD (2023), "Prices: Consumer prices", Main Economic Indicators (database), <https://doi.org/10.1787/0fe8000-en>
Accessed April 6, 2023

2. Interest rate hikes slowing, stopping, or reversing

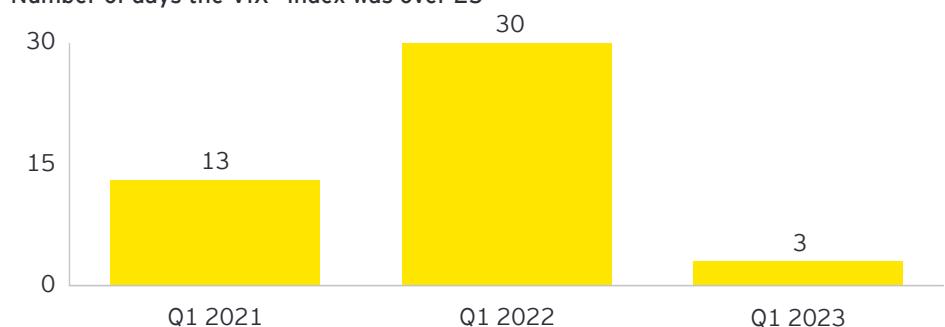
Effective Fed funds rate



Source: www.macrotrends.net
Data as of March 31, 2023

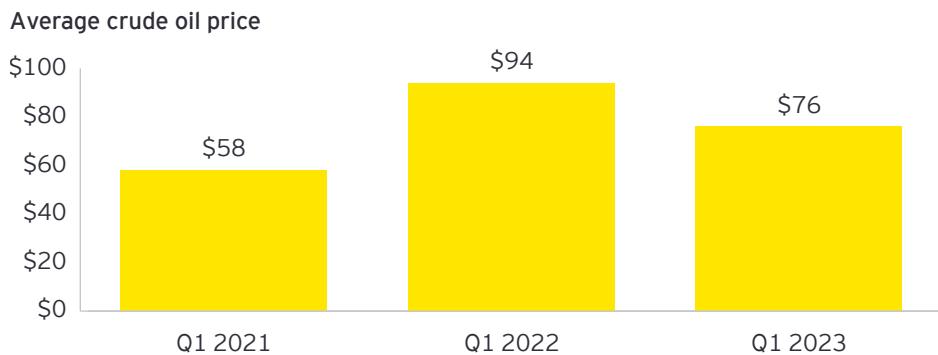
3. Market volatility remaining subdued

Number of days the VIX® Index was over 25



Source: Cboe Global Markets, Inc.
Data as of March 31, 2023

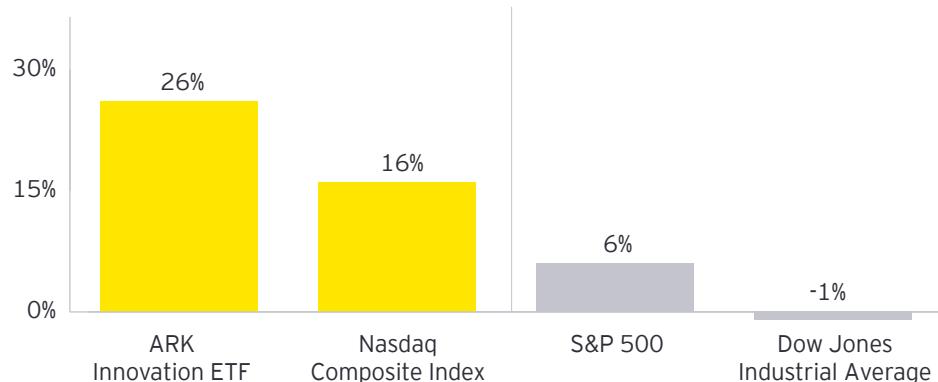
4. Commodity prices stabilizing



Source: *Yahoo! Finance*
Data as of March 31, 2023

5. Growth stocks performing

Growth stock performance YTD 2023



Source: *S&P Capital IQ*
ARK Innovation ETF and Nasdaq Composite Index are utilized here as general approximations for the performance of growth stocks.
Data as of March 31, 2023

6. Earnings estimates remaining stable or improving

Estimated S&P 500 EPS for 2023, as of:



Source: *S&P Dow Jones Indices*

2023 US IPO outlook

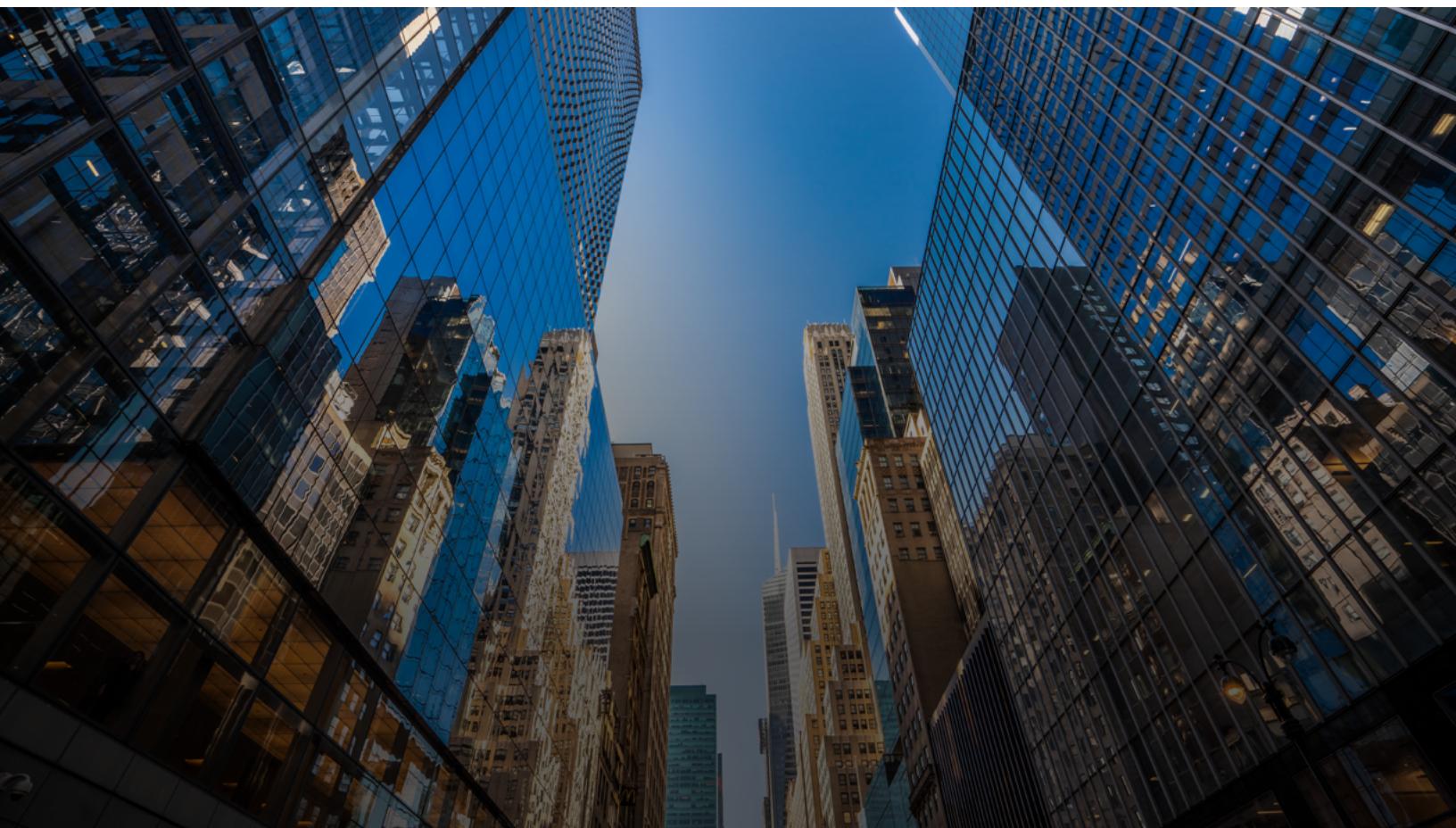
Although momentum is not on our side as we exit Q1, companies can use this time to prepare themselves for a future IPO, building muscle memory around operating like a public company – preparation is critical and will create optionality to capitalize on fleeting open market windows.

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Companies waiting for the public markets to reopen should use this quiet period to their advantage.

Focus on building rigor around corporate governance, accounting and management development. Operating as a public company requires meticulous preparation to confidently face unexpected hurdles. With proper preparation, companies will be better positioned when the window of opportunity reopens.

Rachel Gerring
EY Americas IPO Leader



The path forward – top five things IPO aspirants should do now

- 01 Do what you do best – focus on the **near-term, actionable growth drivers** in your business.
- 02 Capitalize on margin expansion opportunities and optimizing cash flow. **Managing capital carefully** and emphasizing profitability are paramount in this market environment
- 03 From a financing perspective, solve for liquidity before valuation.
- 04 **Integrate environmental, social and governance (ESG)** into your strategic priorities.
- 05 Last, but not least, don't let your IPO plans get derailed. Continue to strategically manage your IPO preparation timeline and milestones.

Summary

While IPOs raised US\$21.5b, there was still an 8% and 61% decrease year-over-year (YOY), respectively, in Q1 2023 due to prevailing market uncertainty.

Global IPO markets experienced a similar stuttering start to 2023

With a total of 299 IPOs raising US\$21.5b, an 8% and 61% decrease year-over-year (YOY), respectively, Q1 was another quiet period amid interest rate rises, inflation and unexpected global banking industry turbulence.

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