

Hope returns to the IPO market as recent deals test investor sentiment

EY US IPO Trends 2023 – Q3 report

US IPO activity year to date in 2023 has already surpassed full year 2022 levels.

In brief:

- 01 Q3 saw three IPOs each raise over \$500 million, including the ninth largest IPO in the last 20 years.
- 02 The IPO markets remain highly selective, with prospective issuers needing to de-risk transactions with extensive pre-marketing, cornerstone investments, smaller transactions sizes and other measures.

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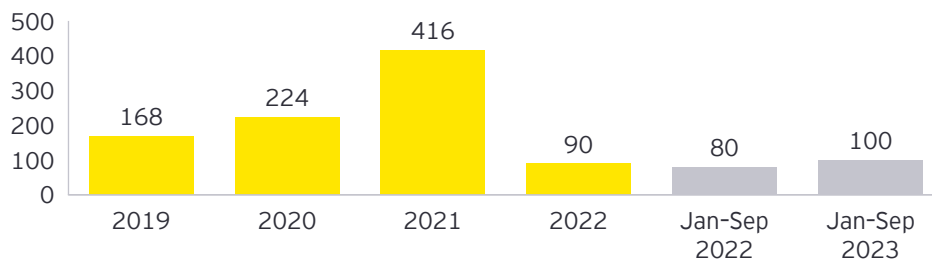
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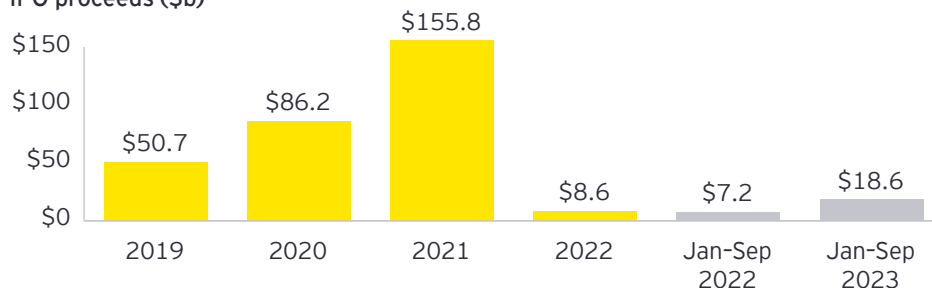
IPO activity in Q3 offered glimmers of hope that the US IPO market could begin to rebound in the coming quarters, but significant challenges remain before we see a broader recovery. Muted aftermarket performance of recent IPOs, combined with an uneasy macroeconomic and political landscape, has elevated the need for IPO aspirants to demonstrate strong growth prospects and profitability, or a clear path to profitability, to earn the trust and confidence of public market investors.

US IPO deal count and proceeds

Number of IPOs



IPO proceeds (\$b)



Sources: EY analysis, Dealogic
Data as of September 30, 2023

The US IPO market: 2023 year-to-date review and outlook

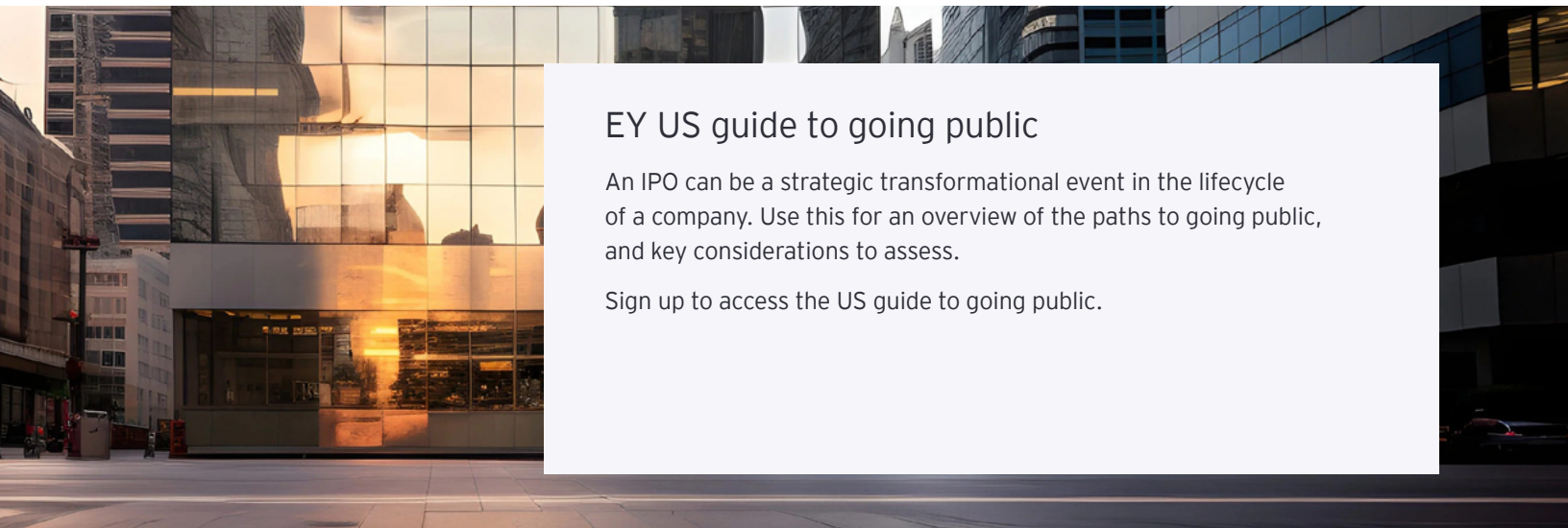
The IPO market provided some exciting highlights in Q3 2023 in the form of several high-profile deals. The number of IPOs on US exchanges and proceeds raised are up significantly compared to YTD 2022, with 37 IPOs raising \$8.5 billion in Q3 2023, but the market has yet to break out the way many were hoping.

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Recent oversubscription levels and pricing outcomes for some marquee IPOs were generally strong, despite tempered expectations. But early post-IPO performance was underwhelming, leading to a cautious outlook for a broader rebound in IPO activity later this year and into early 2024

Mark Schwartz

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EY US guide to going public

An IPO can be a strategic transformational event in the lifecycle of a company. Use this for an overview of the paths to going public, and key considerations to assess.

Sign up to access the US guide to going public.

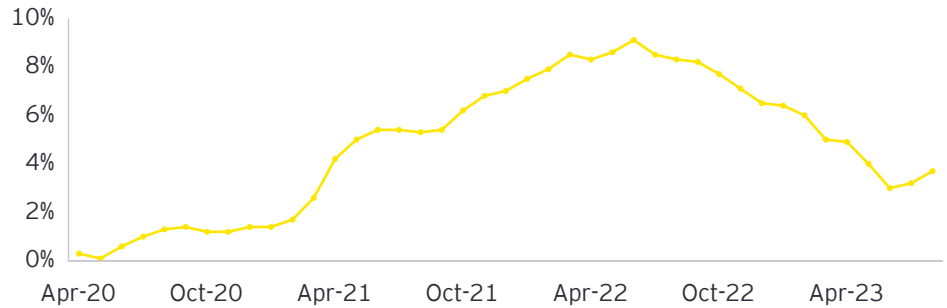
The increase in IPO activity compared to last year has sparked optimism in recent months for a broader IPO market recovery for a wider range of issuers. IPO candidates have largely begun focusing on 2024 market windows and getting valuation “credit” for growth in 2025 and beyond, while assessing the potential impact of the presidential election, the direction of interest rates and concerns of a recession.

One thing is for certain: Markets can open and close quickly, so careful planning and preparation can be the difference. Companies eyeing an IPO must be prepared to enter the public markets with a long-term view. In the near term, recognizing that the market will likely demand more traditional [investor-friendly IPO structures](#) will be increasingly important.

Understanding what's influencing IPO activity: six factors to watch

Continued moderation in inflation

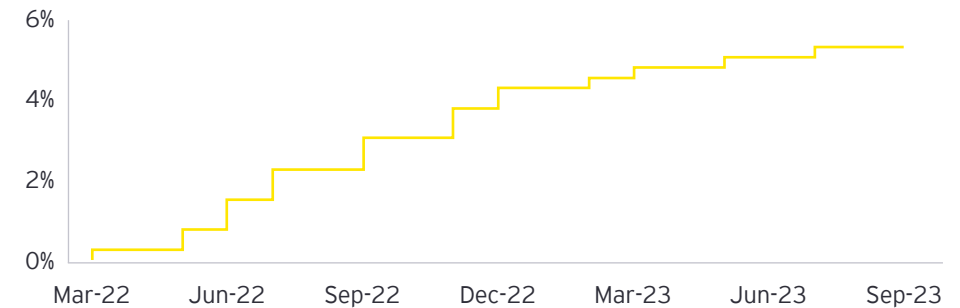
Consumer Price Index



Source: OECD (2023), "Prices: Consumer prices", Main Economic Indicators (database), <https://doi.org/10.1787/0f2e8000-en> | Accessed October 2, 2023

Interest rate hikes slowing, stopping or reversing

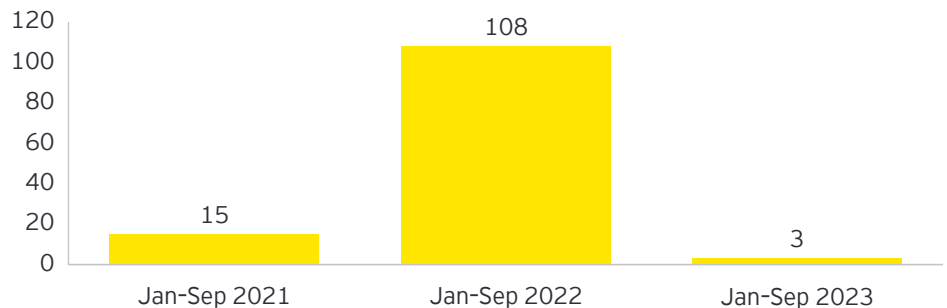
Effective Fed funds rate



Source: www.macrotrends.net
Data as of September 30, 2023

Market volatility remaining subdued

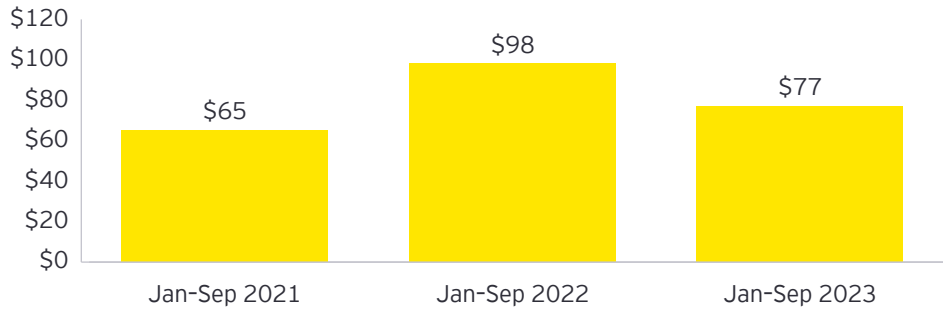
Number of days the VIX® Index was over 25



Source: Cboe Global Markets, Inc.
Data as of September 30, 2023

Commodity prices leveling or declining

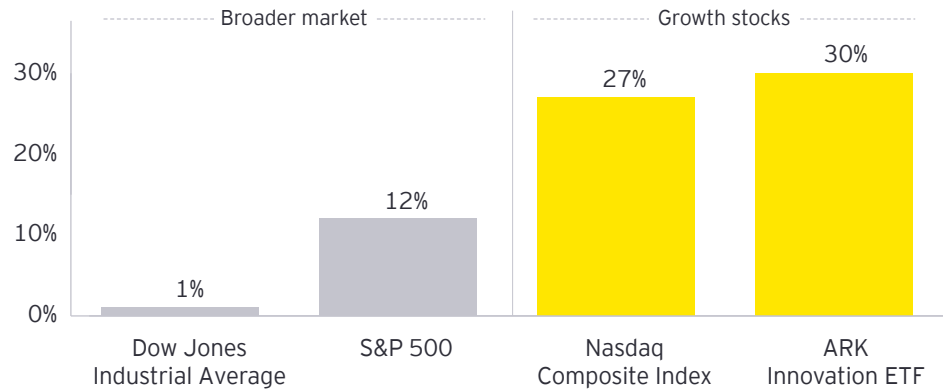
Average crude oil price



Source: Yahoo! Finance
Data as of September 30, 2023

Growth stocks performing

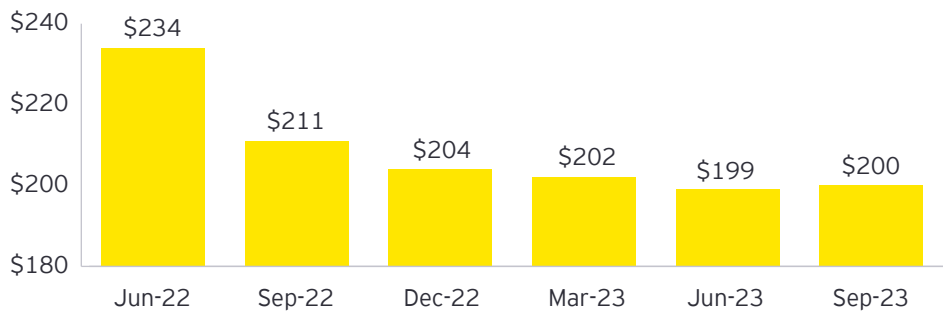
Growth stock performance YTD 2023



Sources: S&P Capital IQ, Yahoo Finance
ARK Innovation ETF and NASDAQ Composite Index are utilized here as general approximations for the performance of growth stocks.
Data as of September 30, 2023

Earnings estimates remaining stable or improving

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



Source: S&P Dow Jones Indices
Data as of September 30, 2023

The path forward

The pipeline of high-quality companies considering a public listing remains strong, but companies with IPO aspirations must be prepared to navigate today's market dynamics.

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IPOs coming to market in this environment have largely been scaled, profitable companies, often with name recognition. We are continuing to see investors prioritize companies with compelling growth prospects, as well as a clear path to profitability. For IPO aspirants, now is the time to solidify confidence in your growth story.

Rachel Gerring
EY Americas IPO Leader

From identifying and managing key performance indicators (KPIs) to implementing appropriate internal controls, quarterly reporting and beyond – the time to make these adjustments is now, well ahead of the days, weeks and months leading up to an IPO.



Top five things IPO aspirants should do now

- 01 Do what you do best: focus on **near-term, actionable growth drivers** for your business
- 02 **Manage capital carefully** to give yourself ample financial and operational runway to IPO
- 03 **Plan:** IPO sizing, timing and certainty are never a given
- 04 **Integrate environmental, social and governance (ESG)** into your strategic priorities well ahead of an IPO
- 05 Be proactive about IPO preparation and be ready for sharp turns in market windows

The views reflected in this article are those of the author and do not necessarily reflect the views of Ernst & Young LLP or other members of the global EY organization.

Summary

An uptick in year-to-date IPO activity and a few high-profile deals have offered hope for a public markets recovery. IPO windows of opportunity swing open and closed quickly. Preparation can make the difference for companies navigating uncertain markets.

Global IPO market, YTD 2023 review

The dynamics in the global IPO market have also shifted to where issuers must demonstrate compelling growth prospects and profitability to attract investment.

“Faced with tighter liquidity and higher costs of capital, investors are turning to companies with strong fundamentals and a path to profitability. In response, IPO prospects need to demonstrate their financial health and potential for value creation,” says EY Global IPO leader George Chan.

For an in-depth look at global trends, read the full report:

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