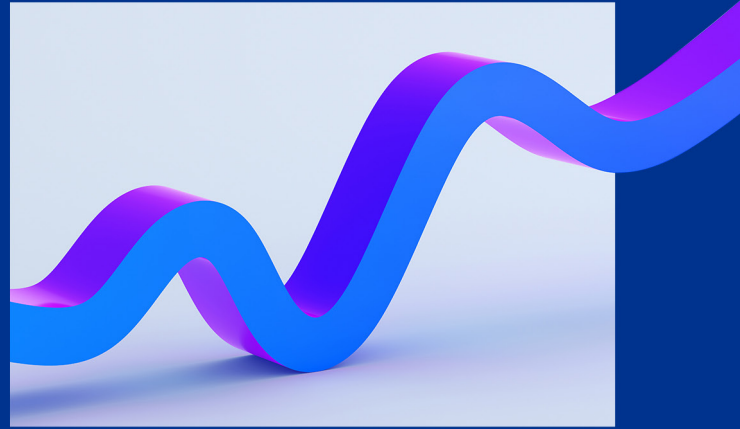




IPO Insights

Perspectives on 3Q 2022

IPO market trends



Taking a company public can boost its profile and provide much needed capital resources. But optimizing an initial public offering (IPO) requires a keen understanding of the current IPO market—significant exits; trends in deal prices, sizes, and returns; sectors on the rise; and more.

IPO Insights delivers the latest information and analysis on quarterly IPO activity and performance to inform business leaders looking to take their companies to the next level.

The art of not being

How do you describe something that didn't happen? Perhaps by what was missing: deal activity, proceeds, returns, and investor confidence were nowhere to be found in the third quarter. Or perhaps it is best described by what it actually was: one of the slowest third quarters on record, dominated by a handful of micro-cap, pop-and-drop IPOs, delivering the lowest levels of third quarter proceeds in 15 years.

One thing is for sure—none of the normal metrics have meaning in this quarter. Average first-day returns hit nearly 700 percent, with one Chinese garment maker enjoying a 13,031 percent pop (it ended the quarter down 43 percent from issue) (Renaissance Capital, Q3 2022). One single listing (Corebridge) accounted for a whopping 71 percent of the quarter's total proceeds (Renaissance Capital, Q3 2022). Nine out of ten new listings finished the quarter below issue (Renaissance Capital, Q3 2022).

Sadly, the headline data for the quarter was actually a very slight improvement on the previous quarter. There were 25 new issues in 3Q (versus 21 in

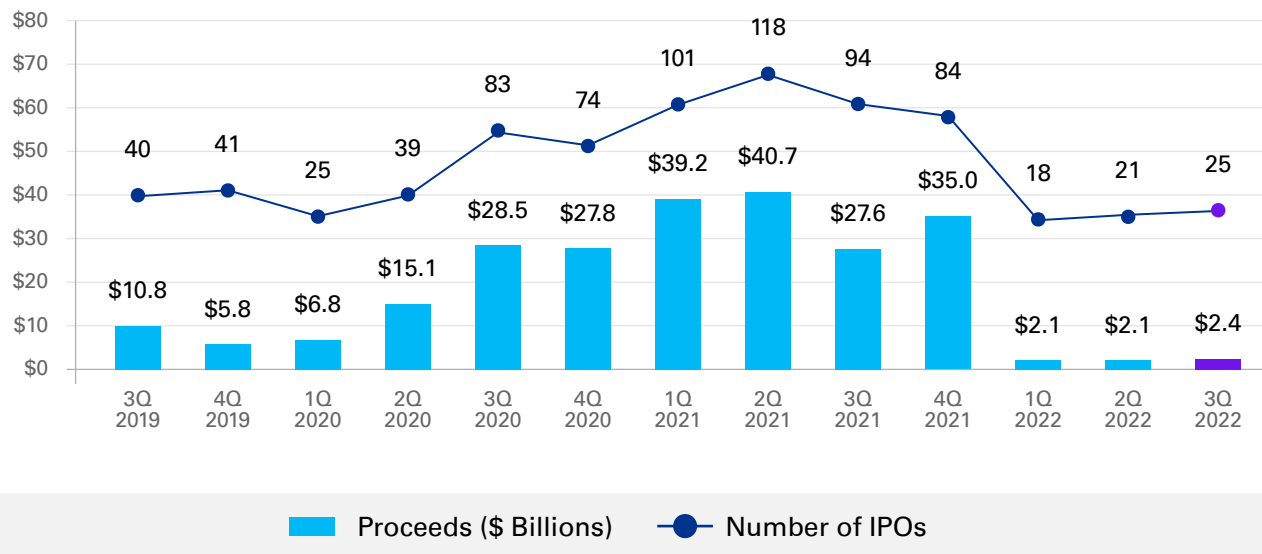
2Q) and around \$2.4 billion was raised (versus \$2.1 billion in 2Q) (Renaissance Capital, Q3 2022). But, barring an unexpected late-year rally, the year is on track to be one of the worst for IPOs in more than three decades.



“With uncertainty remaining at all-time highs, investors have little appetite for new issues and the few notable listings that did happen in 3Q 2022 were met with significant volatility. Anyone who was thinking about perhaps going out in the fourth quarter will likely now have serious reservations. It is unlikely that the IPO window will fully reopen until at least the end of the first quarter of next year.”

—Conor Moore, National Leader, KPMG Private Enterprise

U.S. IPO activity—Quarterly



Source: Renaissance Capital US IPO Market 3Q 2022 Quarterly Review. Data (includes IPOs and direct listings with a market cap of a least \$50 million; excludes closed-end funds, unit offerings, and SPACs).

Little to write home about

The bright light of the quarter, as it was, was the spin-off of AIG’s retirement services and life insurance business as Corebridge Financial (Renaissance Capital, Q3 2022). Raising just under \$1.7 billion, the listing single-handedly represented 71 percent of the total proceeds in the quarter (Renaissance Capital, Q3 2022). The stock saw a modest drop on its first day, ending the quarter down 6.2 percent (Renaissance Capital, Q3 2022).

There were only two other deals worth more than \$100 million. Third Harmonie Bio, a biotech company backed by venture capital (VC), raised \$185 million and ended the quarter up 11.6 percent (Renaissance Capital, Q3 2022). AMTD Digital, a Chinese fintech, raised \$125 million and has seen significant volatility since then—enjoying a first-day pop of 108 percent and ending the quarter up 500 percent (Renaissance Capital, Q3 2022). The vast majority of the other deals were much smaller.

Technology deals made up nearly a third of the issues, but around half of the proceeds were raised by one company (AMTD Digital) (Renaissance Capital, Q3 2022). Same for healthcare—the sector

accounted for a fifth of listings but raised less than a tenth of the proceeds (and that was driven by Third Harmonie Bio) (Renaissance Capital, Q3 2022). Consumer discretionary delivered another 20 percent of the listings, led by a ramen restaurant operator and a hemp cigarette maker (Renaissance Capital, Q3 2022).



“There were no safe havens—regardless of your sector, your business model, your growth story, or your path to profitability. Investors don’t know when the window is going to reopen. And, when it does, it is unclear what sectors the market is going to reward.”

—Erika Whitmore, Audit Partner, KPMG Private Enterprise

IPOs and proceeds by sector (US\$ billion)															
	3Q 2021			4Q 2021			1Q 2022			2Q 2022			3Q 2022		
	#	\$	% of	#	\$	% of	#	\$	% of	#	\$	% of	#	\$	% of
Sector	#	\$	IPOs	#	\$	IPOs	#	\$	IPOs	#	\$	IPOs	#	\$	IPOs
Technology	31	\$10.5	33%	25	\$10.4	30%	4	\$0.2	22%	5	\$0.1	24%	8	\$0.3	32%
Healthcare	32	\$5.0	34%	27	\$2.7	32%	8	\$0.7	44%	6	\$1.0	29%	5	\$0.2	20%
Consumer Disc	12	\$3.2	13%	10	\$14.3	12%	2	\$0.0	11%	3	\$0.1	14%	5	\$0.1	20%
Financials	8	\$3.9	9%	7	\$3.3	8%	1	\$1.0	6%	2	\$0.1	10%	3	\$1.7	12%
Industrials	3	\$1.0	3%	6	\$2.7	7%	2	\$0.0	11%	1	\$0.0	5%	2	\$0.0	8%
Real estate	2	\$0.8	2%	2	\$0.7	2%	-	-	-	-	-	-	1	\$0.0	4%
Commercial services	-	-	-	1	\$0.4	1%	1	\$0.0	6%	-	-	-	1	\$0.0	4%
Consumer staples	5	\$2.4	5%	4	\$0.3	5%	-	-	-	-	-	-	-	-	-
Energy	-	-	-	1	\$0.2	1%	-	-	-	2	\$0.7	10%	-	-	-
Materials	1	\$0.7	1%	1	\$0.0	1%	-	-	-	2	\$0.2	10%	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Renaissance Capital US IPO Market 3Q 2022 Quarterly Review.

You could hear a pin drop

If the big VC and private equity (PE) firms serve as a yardstick for investor sentiment, then don't expect the IPO markets to open soon. PE firms have not brought a single listing to market this year (Renaissance Capital, Q3 2022). VC activity dropped quickly and has continued to taper off—just two VC-backed issuances were completed this quarter, raising around \$200 million (Renaissance Capital, Q3 2022).

VC and PE firms are already dealing with poor returns from some of the new listings they brought to market last year. VC-backed IPOs from 2021 ended the third quarter with an average return of -56 percent (Renaissance Capital, Q3 2022). PE-backed IPOs ended the quarter with a -34 percent return (Renaissance Capital, Q3 2022).

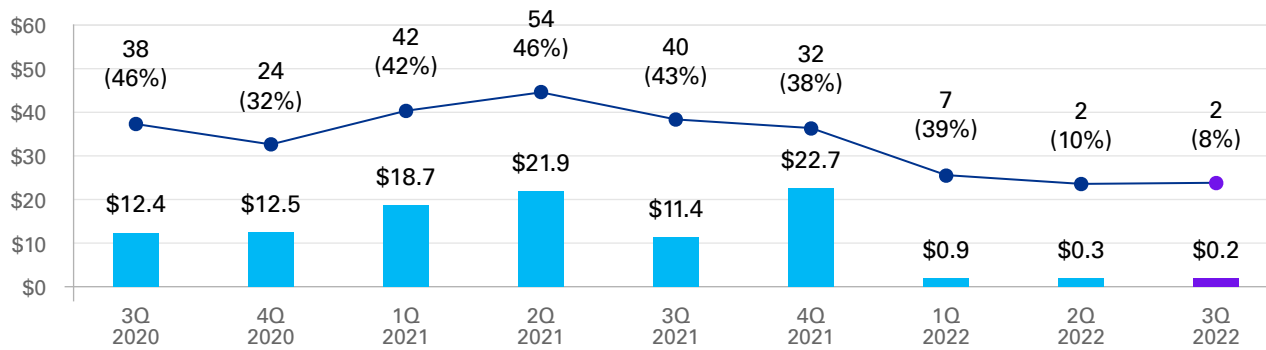


“Between poor returns from last year’s listings, an essentially closed IPO window that has cut off public exits, and the recognition that some portfolio companies may need to be propped up for a while longer, funding for new VC and PE investments is getting more competitive. Private companies looking for new equity funding may need to be patient in this environment or seek alternatives.”

—Sal Melilli, National Audit Leader, KPMG Private Enterprise

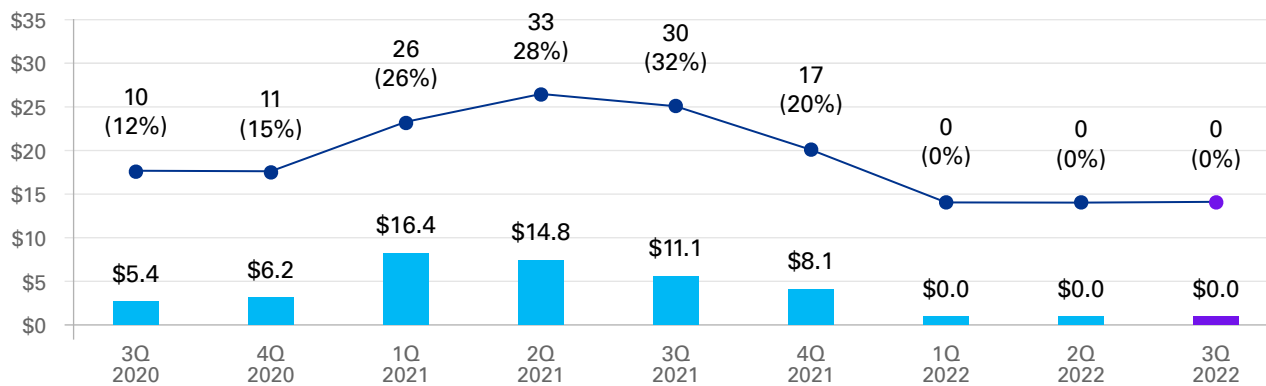


U.S. IPO activity—Venture capital



Source: Renaissance Capital US IPO Market 3Q 2022 Quarterly Review.

U.S. IPO activity—Private equity



■ Proceeds (\$ billions) ● Number of IPOs

Source: Renaissance Capital US IPO Market 3Q 2022 Quarterly Review.

Future trends: Hunker down or get out?

If you were thinking about an IPO in the next few months and now realize your window is shut, you are probably thinking about two options: either you hunker down and wait until the markets reopen or you find another exit strategy.

Hunkering down will likely force some private companies to go looking for new rounds of investment. That could be difficult in today's climate. Even existing portfolio companies are fighting for capital. And few of the other exit strategies seem less risky. SPAC activity has fallen off a cliff so, too, has their reputations. And there has been much less merger and acquisition (M&A) activity than one might expect given current valuations.



“Regardless of what path you choose, expect everything to take more time. Investors are extending their due diligence, strategic buyers are waiting to see if valuations might fall further, Boards and management are thinking long and hard before they pull the trigger. What used to take weeks can now take months.”

—Shari Mager, U.S. National Leader, Capital Markets Readiness, KPMG

Future trends: Rethinking compensation

The risk is fairly obvious. The valuation of the company falls—likely in line with an annual or recurring 409A assessment. Employees realize their shares are now worth a fraction of the value they were just a few months ago. Motivation and engagement slump. Talent gets restive. The best and brightest minds in the organization move to competitors. Future growth prospects diminish.

Not surprisingly, many private sector leaders are trying to get out ahead of that downward cycle. Our conversations with Board members, PE and VC investors, and other key stakeholders suggest concerns are growing in those circles, too. And we are fielding more and more calls from private market leaders looking for solutions and ideas.



“We are hearing from a lot of private company leaders who have seen their company valuations drop over the past few months and are now wondering how this will impact their employee compensation. It’s a growing concern. And they have a number of options for dealing with the problem. But each of them comes with their own risks.”

— **Shivani Sopory, Audit Partner, KPMG Private Enterprise**

Future trends: Industries to watch

Once the IPO window starts to reopen, what sectors and companies will get the warmest reception?

Nothing in today’s world is certain. But our conversations with investors suggest a leaning towards B2B models that drive automation, improve efficiency, and reduce friction. On the consumer side, fintech firms offering not only convenience but also cost savings should also see stronger appetite among investors.



“Given the current market and consumer sentiment, investors will be focusing on companies that have the ability to offer a high level of experience at a lower cost than traditional approaches. But they will also need to be able to show how they will turn that solution into real profitability.”

— **Conor Moore, National Leader, KPMG Private Enterprise**

Future trends: Outlook for 4Q 22

The forecast for the final quarter of the year is not looking positive. As many pundits anticipated, 2022 is likely to go down in the record books as one of the worst IPO years in decades. The hope is that a slew of “better” news at the end of the quarter will point to a market reopening. But there are also a basket of big concerns hovering on the horizon.

The optimists among us see a pick-up in S-1 filings and SEC updates towards the end of the year bolstered by lower-than-expected interest rate rises and continued strength in the economy. The pessimists expect the IPO markets to stay boarded up through the holiday season, perhaps longer. We hope the optimists win.

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Contact us

Conor Moore

National Leader, KPMG Private Enterprise

T: 415-335-8401

E: conormoore@kpmg.com

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