

IPO Market Rebounds With Equity Gains

January 02, 2018



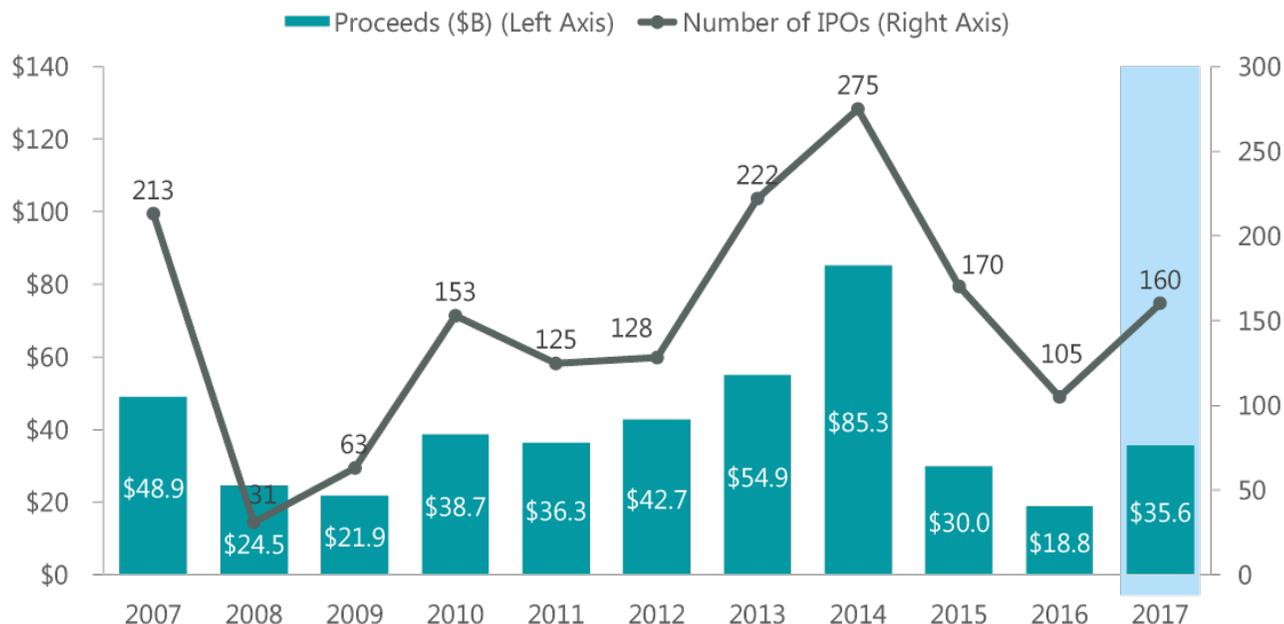
Key Takeaways

- The number of initial public offerings and proceeds raised by IPOs rose robustly in the U.S. and globally in 2017.
- IPOs generally priced strongly, with smaller listings outperforming larger ones.
- Given the momentum of the past year, the 2018 IPO outlook appears strong.

Revived Interest Sparks Strong Pricing for New Issues

The number of initial public offerings was up 41% globally this year with U.S. issuance surging 52%. By deal proceeds, U.S. companies raised \$36 billion in the new issue market, an increase of nearly 90% year-over-year according to Renaissance Capital. The preliminary U.S. total for 2017 is 160 deals (excluding SPACS, RegA+, etc.), compared to 105 IPO transactions in 2016 (Exhibit 1). Globally, almost 1,700 companies went public, with China being the clear leader with more than 400 listings.

Exhibit 1: U.S. IPO Activity



As of Dec. 31, 2017. Source: Renaissance Capital.

Conditions were ripe for IPOs after a lackluster 2016 deal calendar. Broader equity markets continued to rise, with the S&P 500 Index up 20% over the last year. A rotation back into growth stocks after a value-led market in 2016 was also conducive of a wider IPO window, especially in the second half of the year. Meanwhile, the year's volatility averaged less than the lowest point of all of 2016. In general, capital markets activity has an inverse relation to equity market volatility.

Health Care and Technology Drive Issuance

The average amount raised per deal increased to \$175 million, a strong accomplishment given that only five companies issued more than \$1 billion in stock. Every sector saw more IPOs in 2017, and health care topped IPO activity for the fifth year in a row, driven by biotechnology.

2017 was the year for smaller IPOs as the five deals over \$1 billion declined 15% on an average weighted basis, compared to a 30% appreciation for smaller listings according to Bloomberg. Eighteen percent of deals priced above the marketed share price range, compared with 15% in 2016.

A renewed appetite for cross-border IPOs was evident as Asian companies raised \$4.9 billion and accounted for 13% of the total U.S. proceeds.

Equity markets ended the year near all-time highs and investor confidence is strong, setting up a conducive environment for robust IPO activity in 2018. A healthy pipeline of companies ready to go public is led by notable names such as ADT, Airbnb, Lyft and Dropbox.



Elisa Aylward
Senior Trader
39 Years experience 27 Years at ClearBridge

All opinions and data included in this commentary are as of January 2, 2018, and are subject to change. The opinions and views expressed herein are of Elisa Aylward, may differ from the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments nor its information providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

