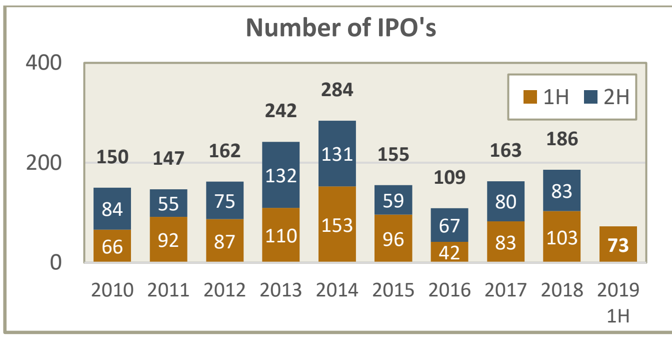
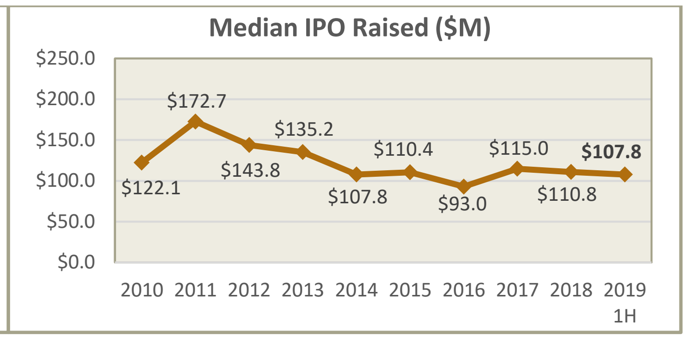
People are very open-minded about new things – as long as they're the exactly like the old ones.
- Charles Kettering

Thoughts on the IPO Market The initial public offerings ("IPOs") of a few highly-recognizable businesses pushed the IPO market back into the headlines in 2Q19. Most notable among these were Uber and Lyft, two competing ridesharing businesses that are poster children for today's "gig economy". When IPO activity starts getting more media attention, it is often accompanied by suggestions that this must signal the end of an economic expansion as private company CEOs use a hot market to capitalize on the unsuspecting public's desire for new issues. While it is true that IPOs usually occur during healthy economies, the cycle coincides more with strong markets because the reception of IPOs is anemic when the market is weak. In this piece we examine IPO volumes over the last 10 years and the state of the current new issue market.

Through the first six-months of 2019 the US had 73 IPOs. This is the 3rd fewest IPOs in the first half of a calendar year since 2009, so we have not seen a jump in the number of IPOs. Additionally, the median gross proceeds raised per issuance YTD of $107.8M is exactly in-line with the average over the past five years ($107.4M).

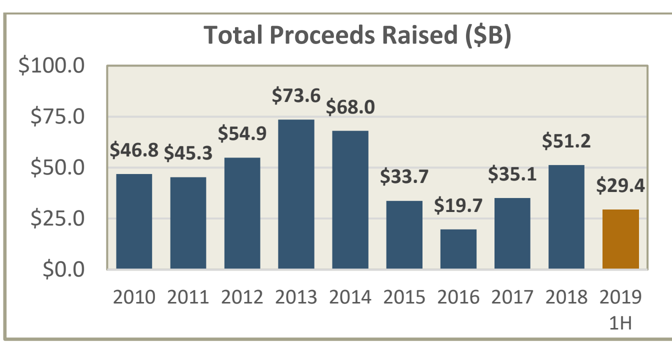


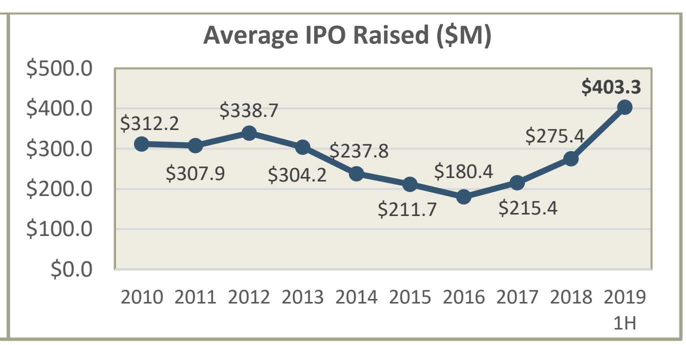


However, there are a few reasons that the IPO market has seemed more active.

There have been several IPOs of large companies, well recognized by retail investors in the first half of 2019. In addition to Uber and Lyft, other sizable IPOs this year have included: Pinterest, Chewy, Zoom Video, and Levi Strauss. Prior to this year's offerings, the highest-profile IPO was in August 2018, when Sonos (the wireless speaker company) went public. The public recognizability of the companies engaging in an offering influences the perception of IPO activity. Additionally, the fact that some of these companies (e.g., Uber and Lyft) are not profitable for the foreseeable future, added some fuel to the narrative of IPO excess.

We have had more large, splashy offerings lately. The average proceeds from IPO deals jumped to $403M in 1H19 from $275M in 2018. We have had six IPOs that raised over $1B in their initial offerings so far, compared to just eight in all of 2018, and four in each of the two years prior. The $8.3B raised by Uber is the most since Facebook raised $16B in its 2012 IPO. However, as mentioned earlier, the median proceeds raised has not budged, suggesting a few large deals are skewing the average.





It is worth noting that IPO volumes have declined from the levels of 2013 (242 new issues) and 2014 (284 new issues) to an average of 150 per year during the last five years. Total IPO proceeds averaged $71 billion in 2013 and 2014 compared to $34 billion over the last five years. The elevated levels of those years did not precede a weaker economy or a stock market peak. Since the end of 2014 the S&P 500 has risen an additional 42%.

Finally, simply tracking the number of deals can be misleading, since there are sectors, such as health care, that represent a high percentage of the deals but a relatively low percentage of gross proceeds. Many small biotech companies raise public equity to finance expensive R&D programs.

We see no reason to believe that the high number of IPOs so far in 2019 suggests an irrational rush for the exits. We are also not convinced that a strong IPO market is a good leading indicator of a weakening economy. The stock market, itself, is one of the best leading indicators available, and it has advanced strongly this year. As we have witnessed, the robust IPO markets in 2013 and 2014 did not lead to a recession. These data do not preclude a coming slowdown, which we will be watching for carefully, but also do not suggest that the current IPO market should lead us to that conclusion.