SIFMA Insights

Spotlight: US Capital Formation's 2020 Journey

How Different Vehicles Took Center Stage at Different Points of the Cycle

November 2020

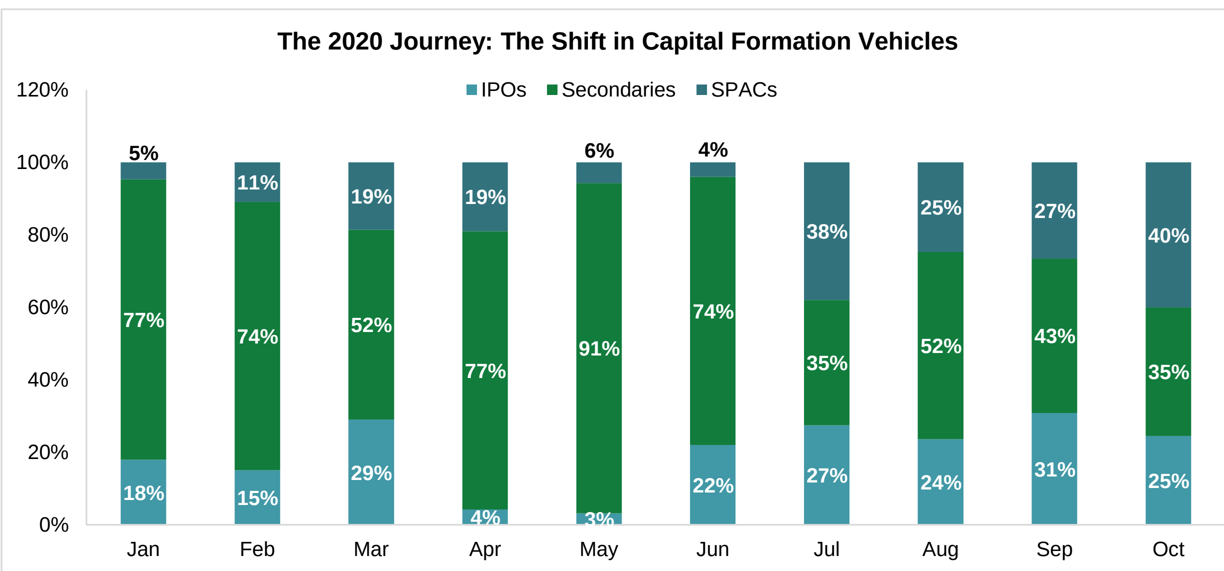
Key Takeaways

- After capital formation halted during the peak of the COVID related market turmoil in the spring, first secondaries came back strong, followed by a rebound in IPOs and the SPAC boom
- Secondaries: $203.1B YTD (# 696), +40% Y/Y (# +7%); peaked in May as firms shored up balance sheets
- IPOs: $66.0B YTD (# 173), +35% Y/Y (# +6%); led by tech and healthcare, strong pipeline exists
- SPACs: $62.0 YTD (# 169), +359% Y/Y (# +186%); growth is fitting given economic conditions, not seen as cannibalizing IPOs

Spotlight: Capital Formation's 2020 Journey

As COVID-19 rolled through 2020, different capital formation vehicles took center stage at different points in the cycle. Looking at initial public offerings (IPO), secondaries[1], and special purpose acquisition companies (SPAC[2]), we note the following path for capital raising this year:

- **Pre COVID** (January-February): Secondaries led at roughly 75% of the total, IPOs 15%-18%
- **COVID Peak** (March-May): starting in the second half of March, all deals decline, with IPOs essentially halting
  - Secondaries pick up in May as companies raise money to shore up balance sheets
- **Remainder** of Year: IPOs rebound in June and pick up share of total deals; SPACs begin to take off in July
  - By the end of the year IPOs and SPACs represent the majority of deals (typically secondaries represent the highest percentage of deal value totals)



Source: Dealogic

Note: Percentages based on deal value. IPOs/Secondaries exclude BDCs, SPACs, ETFs, CLEFs and rights offers. SPACs include rank eligible BCC/SPAC deals

[1] Secondary offering or follow-on offering; the sale of new or closely held shares by a company that has already had an IPO

[2] Please see SIFMA Insights Spotlight: 2020, the Year of the SPAC

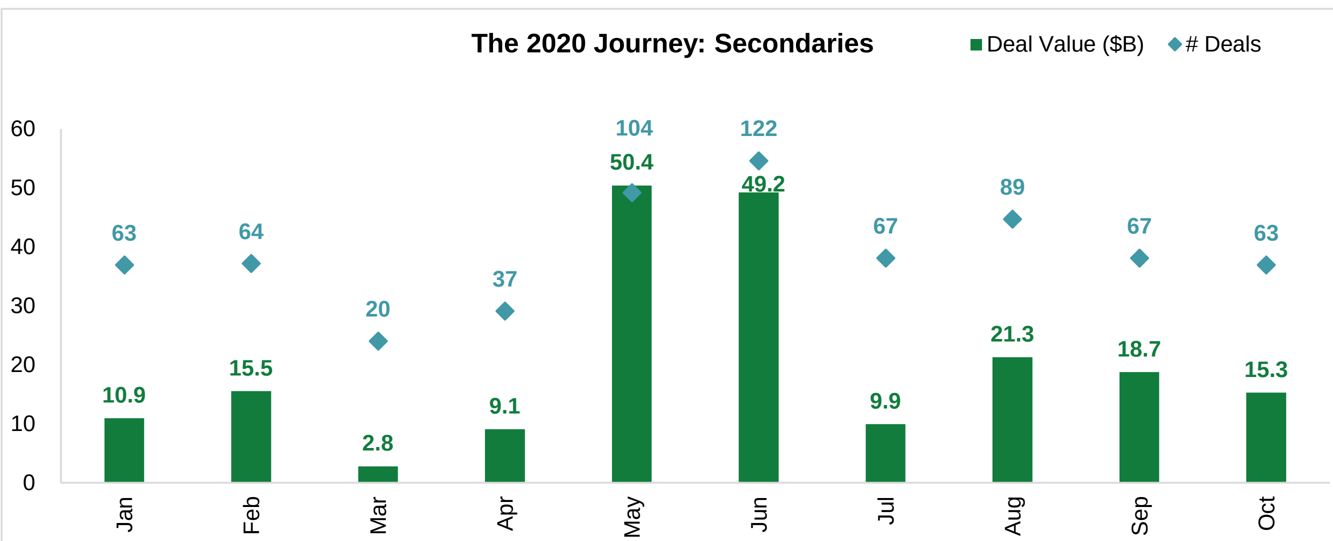
First Came Secondaries

Through October, we have seen $203.1 billion in secondaries[3] (696 total deals). Putting this in perspective, we compare this to historical averages:

- +28% to the annual average of $158.4 billion going back to 2003 (average 600 deals per annum, +16%)
- +34% to the annual average $151.7 billion over the last three years (2017-2019; average 689 deals per annum, +1%)
- +40% Y/Y to $145.3 billion deals in 2019 (653 deals LY, +7%)

We highlight the following trends in the 2020 journey:

- **Monthly average**: $20.3 billion (70 deals); May-June average $49.8 billion (deals 113)
- **Peak to trough**: May peak $50.4 billion (122 deals in June): +1,718% to March trough of $2.8 billion (deals +510%), +148% to 2020 average (deals +75%)



Source: Dealogic
Note: Includes rank eligible deals, excludes BDCs, SPACs, ETFs, CLEFs and rights offers

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Then IPOs Rebounded

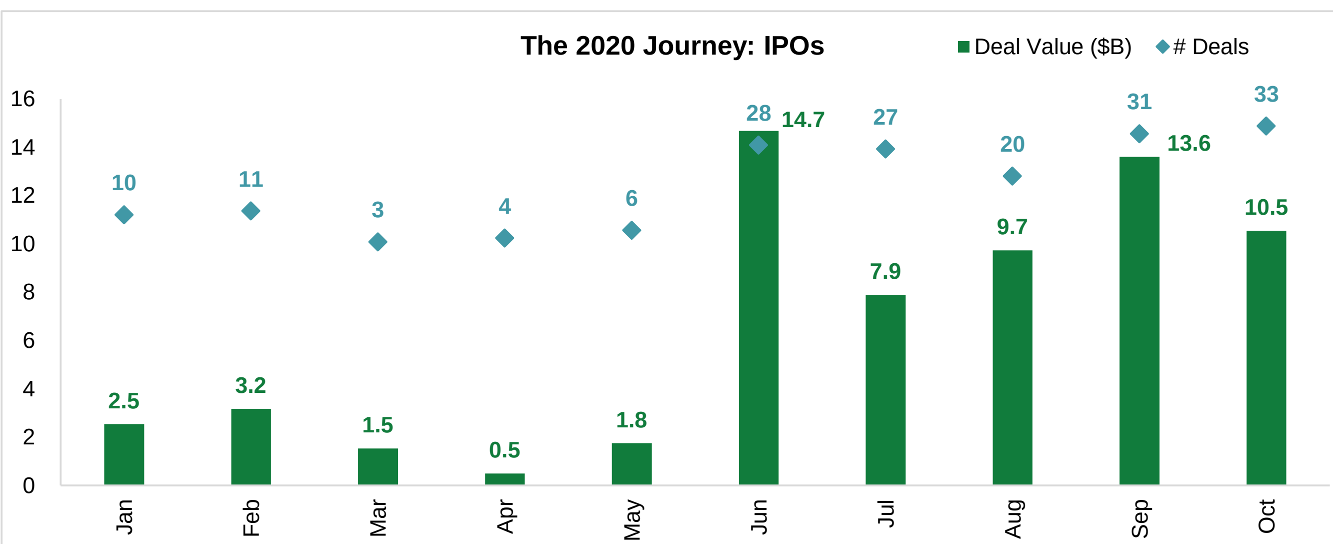
Through October, we have seen $66.0 billion in IPOs (173 total deals). Putting this in perspective, we compare this to historical averages:

- +48% to the annual average of $44.5 billion going back to 2003 (average 159 deals per annum, +9%)
- +44% to the annual average $46.0 billion over the last three years (2017-2019; average 163 deals per annum, +6%)
- +35% Y/Y to $48.8 billion deals in 2019 (151 deals LY, +15%)

IPOs started off the year in a more normal level, with a strong pipeline set to launch throughout the year. Then deals cratered in late March and April as CVOID took its toll on markets (and exchanges closed physical trading floors). Another impacting factor was that companies and deal makers had to learn to perform the deal process[4] in a fully virtual manner. IPOs rebounded in June and deals continue to take place, as market participants have become comfortable working in this virtual world.

We highlight the following trends in the 2020 journey:

- **Monthly average**: $6.6 billion (17 deals); June-October average $11.3 billion (deals 28), +71% to YTD average (deals +61%)
- **Peak to trough**: June peak $14.7 billion (33 deals in October): +2,819% to April trough of $0.5 billion (deals +1,000%), +122% to 2020 average (deals +91%)



Source: Dealogic
Note: Includes rank eligible deals, excludes BDCs, SPACs, ETFs, CLEFs and rights offers

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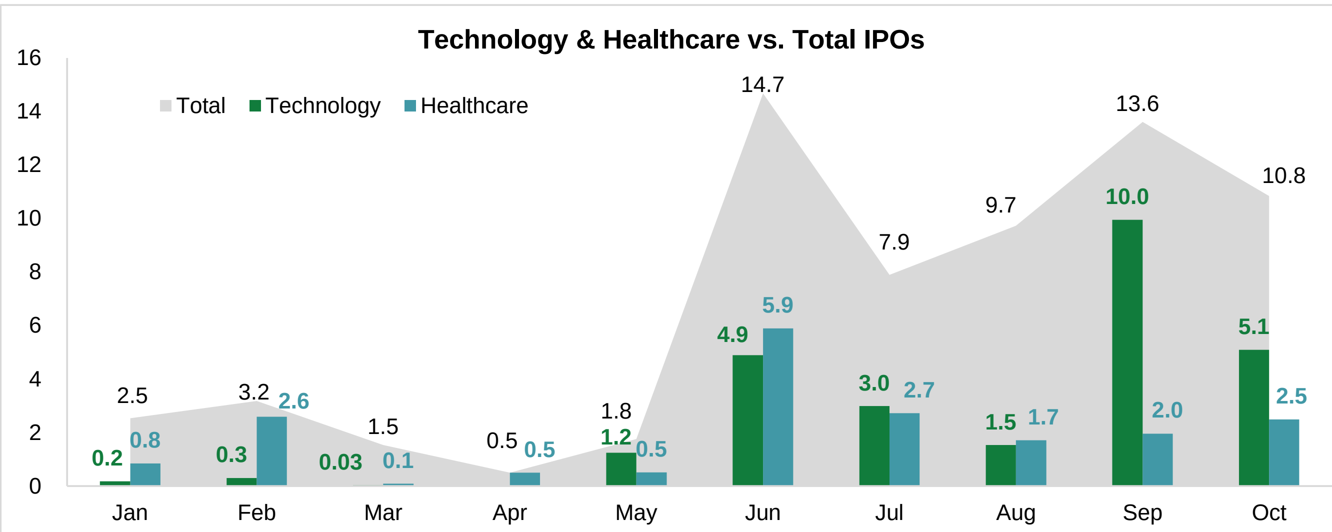
[4] Please see SIMA Insights: US Equity Capital Formation Primer

The IPO rebound came in waves, led at first by companies in the technology and healthcare sectors. We do note that these sectors were both doing well prior to the pandemic, representing 91% of the IPOs in February of this year. In April and May, these were the only sectors with active IPOS. This is of no surprise since companies in these sectors are well positioned to perform well under the health crisis and in the work from home environment.

Then a broader IPO rebound occurred, albeit technology and healthcare continue to perform well. Technology and healthcare represented 72%-72% of June and July IPOs, dropping to 33% in August as real estate, auto/truck and finance sectors outperformed. Technology and healthcare dominated in September and October again, 88% and 70% of total IPOs respectively.

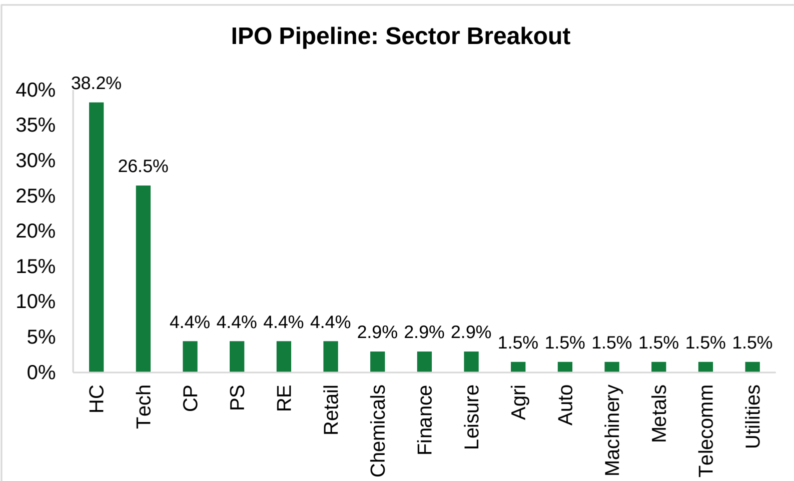


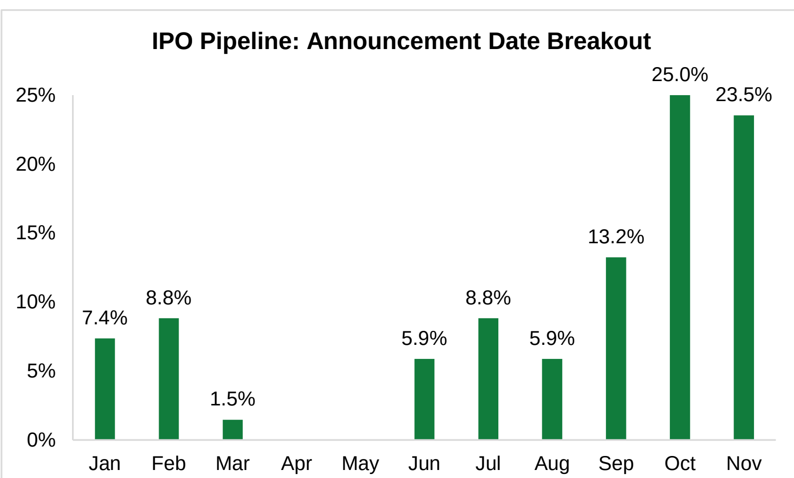
Source: Dealogic

Note: Includes rank eligible deals, excludes BDCs, SPACs, ETFs, CLEFs and rights offers

Looking ahead at the IPO pipeline, we estimate there are 68 deals announced but not executed:

- 38.2% in healthcare, 26.5% in technology
- 25.0% announced in October, 23.5% in November
- There are still 12 deals announced in 1Q that have not yet priced (4 of which are technology and healthcare companies)





Source: Dealogic
Note: As of November 18. Includes rank eligible deals, excludes BDCs, SPACs, ETFs, CLEFs and rights offers. HC = healthcare; Tech = computers & electronics; CP = consumer products; PS = professional services; RE = real estate; leisure = leisure & recreation; agri = agribusiness; auto = auto/truck; metals = metal & steel; telecom = telecommunications; utilities = utility & energy

The SPAC Boom

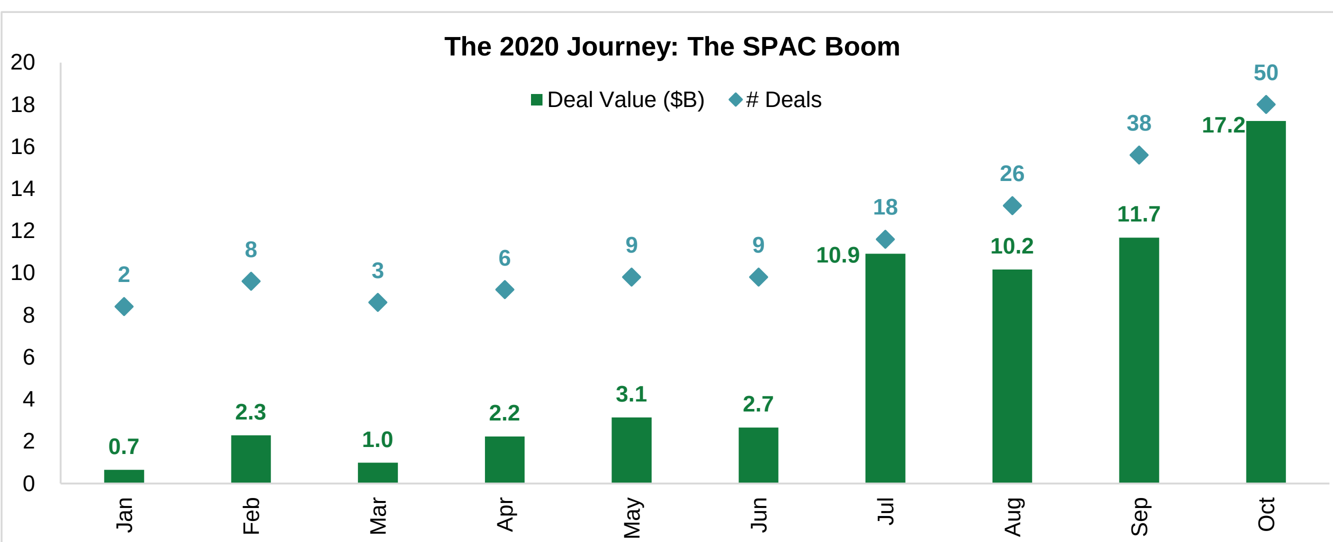
Through October, we have seen $62.0 billion in SPAC deals (169 total deals). Putting this in perspective, we compare this to historical averages:

- +752% to the annual average of $7.3 billion going back to 2003 (average 31 deals per annum, +446%)
- +443% to the annual average $11.4 billion over the last three years (2017-2019; average 46 deals per annum, +265%)
- +359% Y/Y to $13.5 billion deals in 2019 (59 deals LY, +186%)
- +413% to the prior high in 2007, $12.1 billion (66 deals, +156%)

SPACs started off the year in a more normalized level, with the boom being driven by the COVID-19 economic impact. We note that SPAC levels remained low at the height of the COVID related market turmoil in the spring. The boom started once market participants had time to assess the economic damage and what this could mean for the long run stability of companies and sectors hardest hit by the pandemic. SPACs are established to raise capital through an IPO for the purpose of acquiring unspecified existing companies in the future. The rise in SPAC deals is directly related to the impact from COVID and therefore the viability of companies/sectors going forward, i.e. the pandemic has increased the pool of acquisition targets available at (projected) reasonable prices.

We highlight the following trends in the 2020 journey:

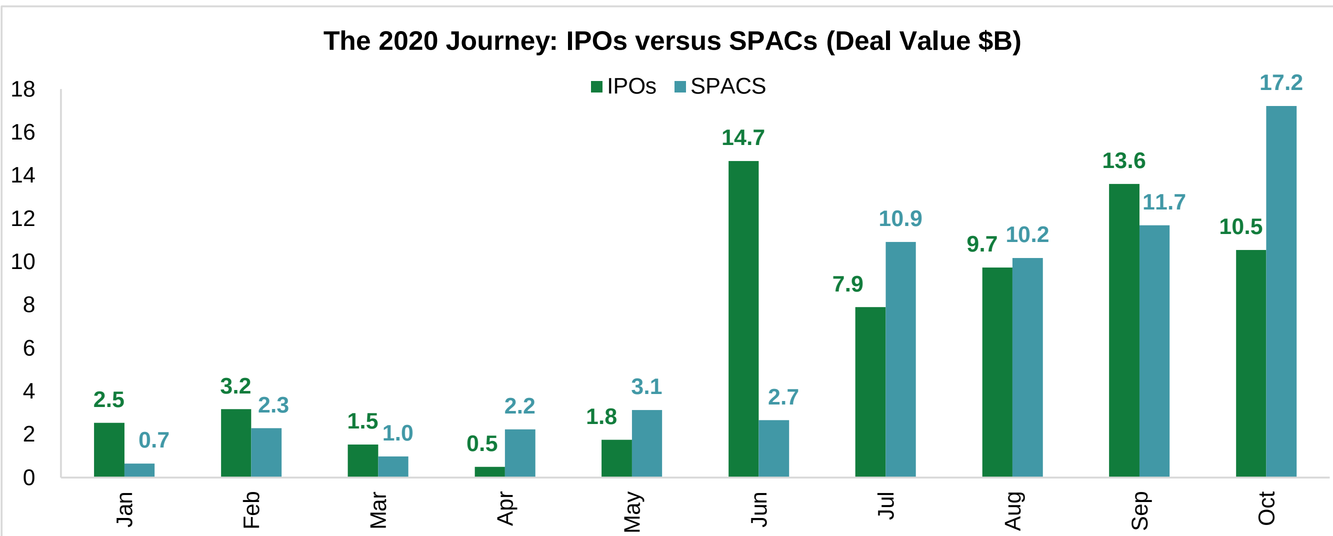
- **Monthly average**: $6.2 billion (17 deals); July to October average $ 12.5 billion (33 deals), +102% to YTD average (deals +95%)
- **Peak to trough**: October peak $17.2 billion (50 deals): +2,530% to January trough of $0.7 billion (deals 2, +2,400%), +178% to 2020 average (deals +196%)
- SPACs continue to grow: October M/M +178% (deals +196%)

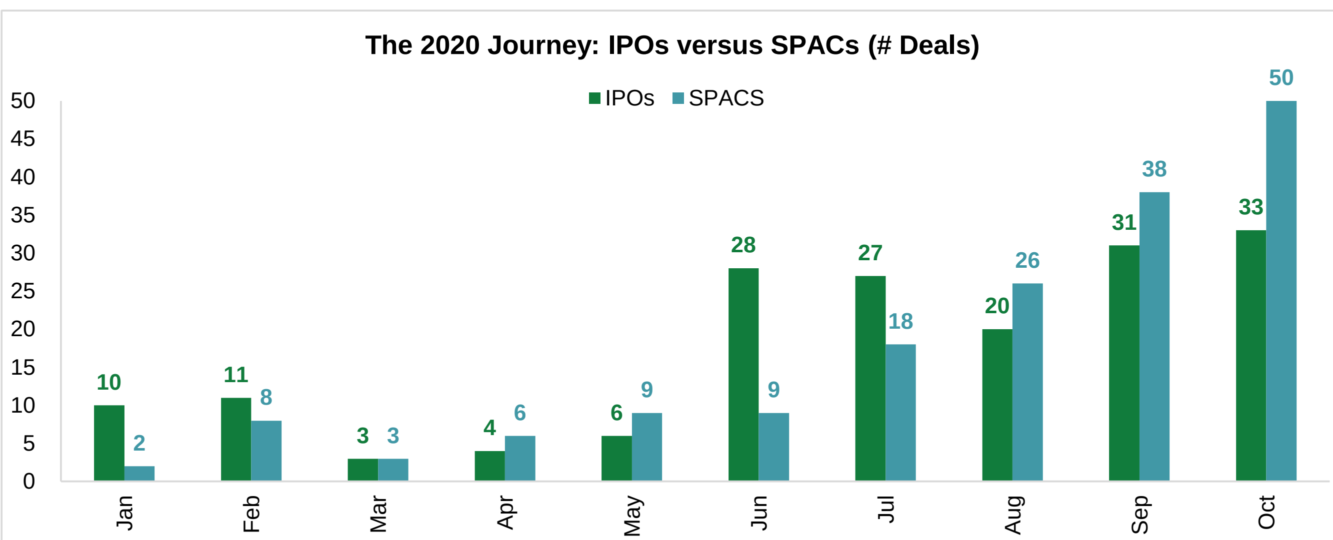


Source: Dealogic (includes rank eligible BCC/SPAC deals)

We note that the IPO rebound began in June, followed by the SPAC boom in July. Both capital raising vehicles continue to perform well through October. While SPACS are having a record year, IPOs are performing above average as well. Each month since June, the IPO deal value has exceeded the three-year monthly average of $3.8 billion by 106% to 283%.

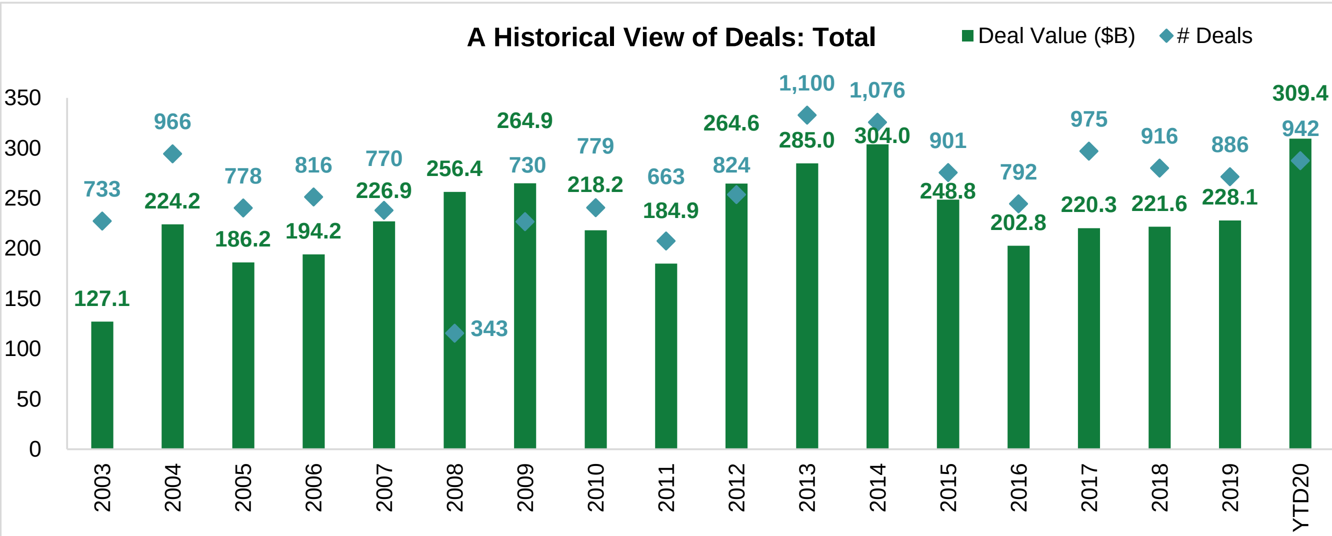
Therefore, we do not see SPACs as replacing or cannibalization IPO deals. They are just another vehicle for capital raising given current market and economic fundamentals.

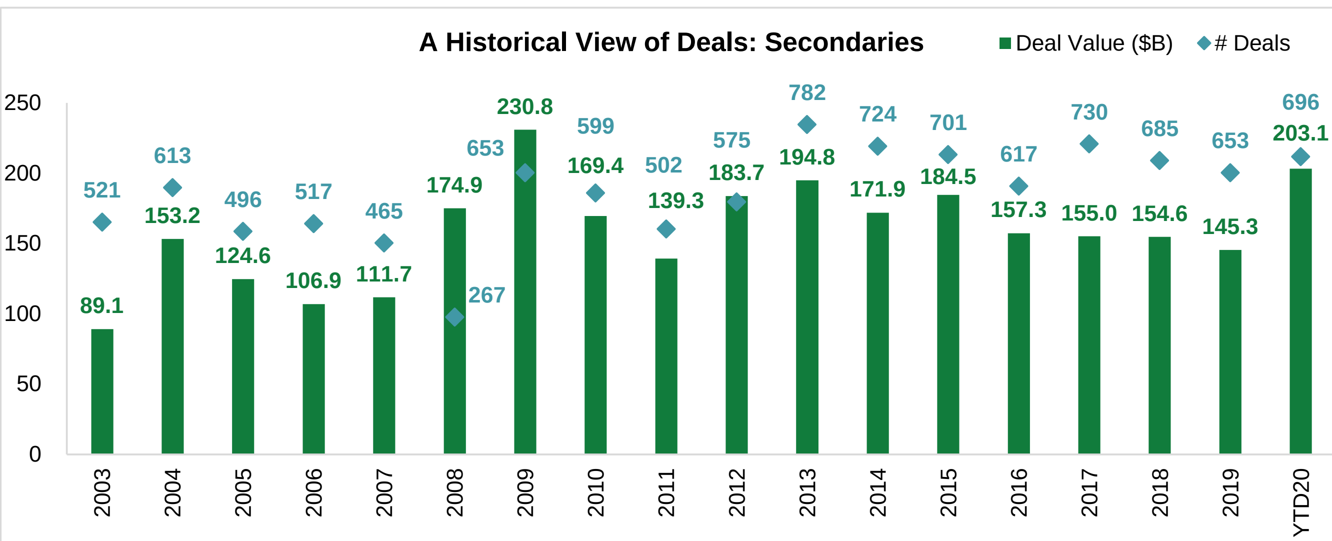




Source: Dealogic
Note: IPOs exclude BDCs, SPACs, ETFs, CLEFs and rights offers; SPACs include rank eligible BCC/SPAC deals

Appendix: A Historical View





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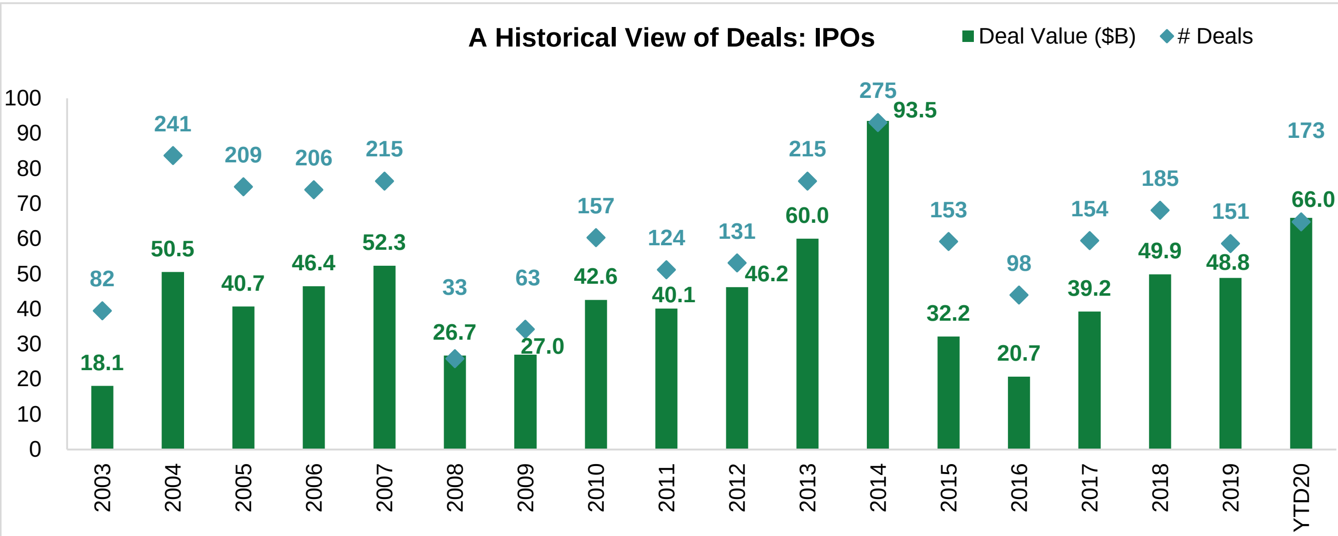

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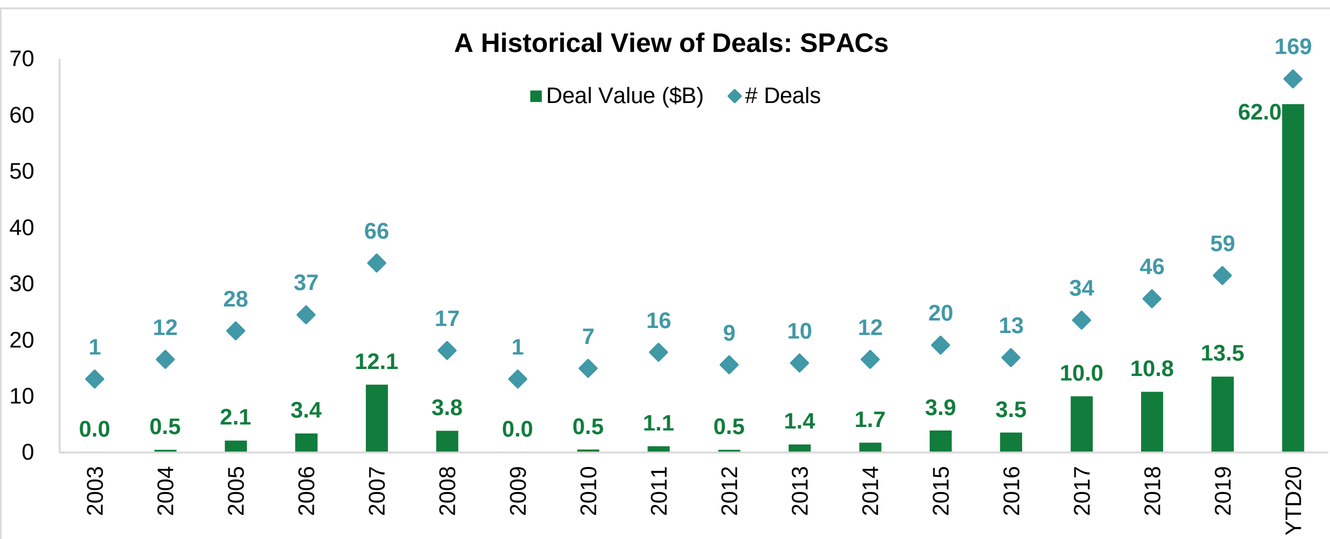

Source: Dealogic
Note: As of October 2020. Includes rank eligible BCC/SPAC deals

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