BUSINESS

Greg Smith: The great IPO rush of 2021 is already bigger than the 1999 tech bubble

28 Nov, 2021 02:00 PM6 minutes to read

Rivian already has a higher valuation than Ford and General Motors. Photo / Getty Images

NZ Herald
By: Greg Smith
OPINION:

While the initial public offering market has been subdued again this year in New Zealand, global IPO activity has been rampant. Last year, the majority of capital raisings were about companies strengthening balance sheets in the wake of the pandemic, but 2021 has been very much about a torrent of new companies coming to the market.

Worldwide, there have already been more IPOs than there were in the whole of 1996 during the dot-com boom — the previous best year for new listings. The US has led the way, with more than 900 companies going public, versus 664 in 1996. Total raisings exceed US$300 billion, triple that of the tech bubble peak in 1999.

Buoyant equity markets, investor optimism around the post-Covid environment, and low bond yields, have propelled investor demand, along with the rise of the retail investor during the stay-at-home thematic. The supply-side has responded accordingly. Elevated valuations levels have made IPOs a very attractive option to unlisted companies looking to raise capital, or as an alternative to being sold privately.

Technology stocks have led many markets higher for long periods this year, so unsurprisingly have been the dominant sector in terms of IPOs. The work-from-home thematic has turbo-charged the demand and prospects of a host of technology offerings, which has driven the need for expansion capital.

The life-cycle stage of companies coming to market has varied. Globally, there have been plenty of new-age companies, looking to leverage investor optimism around modern thematics. Two examples in the US include discount brokerage firm Robinhood, and crypto-currency exchange Coinbase. However, long-established blue-chip firms have been casting the IPO net as well, such as global auto manufacturer Volvo, which has been the biggest IPO in Europe to date.

On a related point, there are stories such as Rivian Automotive. The recent IPO had (up until Friday) seen the valuation of the SUV and truck electric start-up eclipse US$100 billion, more than both General Motors and Ford, despite Rivian being unprofitable and having practically no revenue. At one point recently the stock was worth more than 90 per cent of the companies in the S&P500.

Peak exuberance?

Closer to home, the Australian IPO market has been a hotbed of activity. The current quarter will be the busiest period of major floats on the ASX on record, and 2021 tracking for the most annual listings since 2007. Recently asset manager GQG Partners became the eighth A$1 billion+ company to list on the ASX, and the largest so far this year, valued at A$5.9 billion after raising A$1.19 billion.

This was followed in quick succession by the ninth A$1 billion+ listing as Judo Capital joined the ring. More recent large IPOs have since followed including hotel booking software company Siteminder, and unemployment and disability services group APM.

A few have gotten away, including SG Lottery which is being sold privately. The IPO of the global lotteries business would have been the largest in Australia since Medibank Private in 2014. The listing of the country's second-largest private bus operator ComfortDelGro has been cancelled, while that of services group Ventia was scaled back, and went at a lower valuation.

The NZX has been practically idle in terms of IPO action since the listing of My Food Bag in March. Shares in the meal-kit company have had a tough time of it since, but the recent result was well-received, as was a maiden dividend. However, there has been some cause for cheer (in addition to the Nasdaq listing of All Birds) with this month's dual listing of home-grown Vulcan Steel (at a valuation of just under A$1 billion).

Kiwi investors salivating over two telco listings are having to wait a while longer, as the IPOs of 2degrees and Vocus NZ/Orcon are on hold as the two companies contemplate a merger (and potentially a bigger listing down the track).

IPO action offshore has however been unrelenting, although there are also some warning signs amidst 'buyer fatigue,' and as investors become more discerning, with an increasing number of 2021 listings having underperformed.

In the US, rising US Treasury yields, and a crowded IPO market are weighing on returns. Over half of the companies that listed this year are currently trading below their IPO price.

A poster child for the exuberance of the IPO market in the US this year has been the rise of SPACS (special purpose acquisition companies). These 'blank cheque" companies typically raise capital in a traditional IPO and then sit idle on the market before merging into a target acquisition. They accounted for more than two-thirds of the proceeds raised in the US IPO market in the first quarter, but appetite is continuing to fade.

There is a similar situation in Europe. More than 40 per cent of the largest deals in Europe this year are now trading below their IPO prices. The gap between what is 'hot and what is not' is widening, with IPOs worth billions of dollars called off in recent weeks.

Notably, investors are becoming discerning even while markets have been running hot. Markets were rattled on Friday by the emergence of the new Covid variant Omicron, and a period of sustained market volatility would likely present a much stiffer challenge for lower quality listings to get away successfully.

Particularly as listings are generally being conducted at elevated valuation multiples. While not at the levels of dot-com exuberance in 1999, valuations across several sectors are high. If bond yields rise further on the back of an acceleration in inflationary pressures, already lofty valuation bars will effectively be raised even further. This could see corrective action play out, particularly in some of more exorbitantly priced names.

Investors eager to be involved in the global IPO market are clearly spoilt for choice, but as the table below of some of the more prominent listings this year shows, they are not a path to instant riches. Arguably it has never been more important for investors to conduct proper due diligence and sort the 'wheat from the chaff.'

IPO hits and misses, 2021

Country	Company	IPO valuation	Listed	Return*
New Zealand	**My Food Bag**	NZ$449m	March	-34%
New Zealand	**Vulcan Steel****	A$930m	November	11%
Australia	**GQG Partners**	A$5.9b	October	-8%
Australia	**APM**	A$3.3b	November	-21%
Australia	**Judo Capital**	A$2.3b	November	9%
Australia	**Latitude**	A$2.8b	April	-23%
Australia	**Ventia**	A$1.5b	November	21%
Europe	**Volvo**	Kr158b	October	32%
Europe	**InPost SA**	€8b	January	-35%
Asia	**Kuaishou**	US$60.9b	February	-22%
United States	**Coinbase**	US$86b	April	21%
United States	**Rivian**	US$67b	November	44%
United States	**Coupang**	US$60b	March	-22%
United States	**Didi**	US$61b	June	-44%
United States	**UiPath**	US$35b	April	-11%
United States	**Robinhood**	US$32b	July	-27%
United States	**Roblox**	US$30b	March	173%

** As at November 26, 2021, in local currency, based on IPO price. ** Primary listing ASX.*

Table: Herald Network graphic • Source: Devon Funds • Created with Datawrapper

- Greg Smith is the Head of Retail at Devon Funds

Source: NZ Herald Premium