

DR. T ON SECURITIES

2024 IPO outlook: Rise or fall of the unicorn?

By Sara L. Terheggen

Anyone who predicted 2023 was a bull year for IPOs has realized they were wrong. 2023 proved to be another down year for IPOs, even down from the significantly low numbers of 2022. IPOs fell 21% from 2022's very low number of only 218 IPOs. In 2023, we only saw 171 initial offerings. While the sheer number of IPOs fell, the amount of capital raised did show some signs of improvement. In 2022, it took 218 IPOs to raise \$24.2 billion in capital but the 171 offerings in 2023 brought in \$26.2 billion. In normal years, you would generally see double this amount of capital raised.

Lackluster 2023 leading to signs of improvement for 2024

While the dearth of IPOs in 2022 made some sense to investors given the broader market was in a straight freefall with the S&P 500 falling 19% and earning its spot as one of the 10 worst performing years for the stock index in at least 90 years, 2023 was more of a head scratcher. The S&P 500 soared more than 24% in 2023 and Nasdaq rose more than 50%. With inflation easing in 2023, the economy remaining strong and talks of the prospect of lower interest rates all contributing to drive stocks to record levels, it was odd that IPOs could not keep up in 2023 with the broader market excitement. Why not? And what does this mean for 2024?



Shutterstock

Some argue a mix of high valuations and lackluster IPO debuts have contributed to a lack of enthusiasm about IPOs in general. The four largest IPOs in 2023 have all traded down below their initial offering price and only one has recovered and is currently trading above its initial listing price. Others postulate that industry shift to artificial intelligence is the culprit. Most of the startups focused on artificial intelligence are several years away

from being proper IPO candidates leaving hundreds of companies currently in the pipeline suffering from their business models needing an upgrade in relevancy or risking lackluster debuts.

Despite valuation concerns and industry shift, market sentiment remains strong going into 2024, leaving many convinced that IPOs will finally catch some tailwinds from rising market sentiment and break out from their lows of the

last two years. Many believe lower interest rates are needed to substantially increase deal flow since growth stocks are typically hurt more by high interest rate environments making them less attractive investments. This suggests that IPO activity is likely to be higher in the second half of 2024 as interest rate cuts begin to happen.

The one question plaguing everyone centers on the unicorn (companies with valuations over \$1 bil-

lion) and the likelihood of seeing a rebound for unicorns.

Return or death of the unicorn?

While 2020 and 2021 saw record valuations for unicorns, this has culminated in many companies whose growth did not keep up with its lofty valuation. As such, in the slowdown of 2022 and 2023, these unicorns have seen their valuations plummet, even for companies who are considered at the very top of the unicorn horn. For example, Instacart, a highly awaited IPO that finally went to market in the Fall of 2023, saw its valuation significantly cut. It was valued at \$39 billion (or \$125/share) when they raised a private round in 2021. When it finally made it to its IPO exit in Fall of 2023, it went public at only a \$10 billion valuation and the stock is currently trading below its initial offering price resulting in a current valua-

tion of around \$7 billion. The plight of unicorns like Instacart has temporarily changed the way venture capital is funding investments. The badge of unicorn requires more than just a lofty idea and a hint of innovation, it demands revenue numbers that can be translated into valuations that make sense. This makes it much harder for unicorns to hit the coveted status. While estimates currently show there are 720 active unicorns in the North America, there was only 44 inducted into unicorn status in 2023, down from 195 in 2022 and 360 in 2021. The one anomaly on valuation are start-ups focused on artificial intelligence, but many of those start-ups will not be ready for IPO status for some time so it remains to be seen if they will see the same valuation slashing that other recent IPO candidates have experienced.

As the IPO market continues to

contemplate a comeback, it is most important for companies to center attention on fundamentals. Companies need to be prudent with cash flow to ensure longevity on the assumption that it may take longer to see an exit opportunity depending on the market fundamentals. Companies should also expect valuations to be increasingly tied to actual numbers so execution and performance will become even more critical in distinguishing between companies that should be receiving more funding and those that should fizzle. Those companies that can keep laser focus on strategy, execution and performance may weather the tumultuous market and may even earn them the coveted badge of unicorn. While 2024 will not be the death of the unicorn, it will certainly be a year to level set expectations on who deserves that badge of honor in the first place.

Sara L. Terheggen, Ph.D., J.D.
(“Dr. T”) is the founder and managing director of The NBD Group, Inc. Dr. T has advised on transactions with an aggregate value of more than \$1.10 billion.

