

WEDNESDAY, FEBRUARY 1, 2023

PERSPECTIVE

DR. T ON SECURITIES

## 2023 IPOs: bull or bear market?

By Sara L. Terheggen

It is widely publicized that 2022 was the worst year for IPOs since 2008. IPO values declined 73% in 2022 and this was coming off an epic boom in IPOs in 2021 – where a mind-blowing \$655 billion was raised. As a result of significant economic headwinds, including high inflation and rising interest rates, confidence in the stock market fell starkly and interest in IPOs fell right along with it. Companies contemplating a 2022 debut had to put plans of their IPO debut on the back burner. Delaying an IPO debut during a year when a company’s business and strategy were tested could be a recipe for potential disaster.

If a company was unable to weather the storm of events from 2022, an IPO debut in 2023 could be speculative and potentially put a company at risk of delaying their IPO even beyond 2023. Alternatively, if a company was able to strategize, pivot as necessary, and maintain momentum in a tough year like 2022, they could be a prime candidate for a 2023 IPO. They also may have bolstered their business sufficiently for that IPO to have sustainable upside post-offering. This could result in a fertile ground of solid IPO targets for investors who have already shown eagerness in the stock market in early 2023.

The real question is whether the environment in 2023 will provide IPO opportunities. The sentiment is mixed, with some predicting a bear market for IPOs that will likely last into 2024, while others are far more bullish and seeing signs of



Shutterstock

recovery as early as Q2 of 2023. Others have suggested that certain industries, such as energy and climate tech, may be able to get out in early 2023 while other industries are likely to get pushed to the back half of 2023. Given the uncertainty and mixed sentiment, the only thing a potential IPO candidate can do is hunker down and focus on two key tenets: Performance and Preparedness.

### Performance and Preparedness: Being Ready for the Bull or the Bear

Performance is a key factor for any potential IPO candidate. The ability to show performance in 2022 that is at least stable or solid relative to peers will create a strong foundation for success. But it is

equally important to show as much growth as possible going into 2023. This will require solid leadership, quick decision-making, and laser focus on execution. It may even require hard decisions around restructuring and cost-cutting. No matter what, it will be important for IPO candidates to stand out relative to their peers. Top-line growth, earnings growth and clean structures will be key focus items for investors, especially coming out of the tumultuous market of 2022. A focus on performance also requires a candid and credible look at valuation and ensuring that valuations are anchored in reality. This will have the most fundamental impact on an IPO candidate to be able to succeed post-IPO.

Preparedness may be an obvious

**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 \$110 billion, including more than 20 IPOs.



tenant but also one that cannot be underestimated. Preparing to undertake an IPO is no small feat, often taking companies several years to prepare for their public debut. Of course, companies contemplating a 2023 IPO have likely done a lot of the heavy lifting around IPO preparation. It is highly likely that they have chosen an investment bank, lined up their lawyers and auditors, and perhaps even drafted their S-1. However, the extra time gives them the opportunity to not only keep their focus on performance, but also

to hone their message and take meetings with potential key anchor investors. This added precision and polish around an IPO candidate's story can significantly improve IPO success as well as provide a solid foundation for future public company communications. In addition, the focus on performance is another key aspect of preparedness. It is the key fundamental of being able to survive post-IPO. Being a strong IPO candidate is only half the game; the other half is surviving life as a public company. Candidates who

spend the time on preparedness in all its forms will reap the rewards, and early investors who are waiting for a prime exit will be keen to push their portfolio companies to double down on these efforts at this critical time.

**Putting it in Perspective:**

**Those Who Plan for the Bear will Easily Tame the Bull**

It is always more difficult for an IPO candidate to overcome the negative headwinds of a bear market. However, being competent and capable to navigate one

will certainly position such a candidate for ultimate success in a bull market. The key for any IPO candidate is a continuing focus on performance and preparedness to jump into an open market window. The discipline and patience an IPO candidate shows during the pre-IPO process will inevitably dictate their success post-IPO. There is certainly one thing that every market participant can agree upon: the bull market is coming. Companies poised to tame it will be the winners and investors will reap the fruits of that labor.