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Equity Capital Markets Update

October 2024

Introduction



Daniel Klausner

Managing Director

Daniel.Klausner@HL.com

+1 212.331.8168



Hollis McLoughlin

Associate

Hollis.McLoughlin@HL.com

+1 646.259.7587

We are pleased to present you with our U.S.-focused Equity Capital Markets Update and review of the equity capital markets (ECM) activity so far in 2024.

ECM activity has remained robust throughout 2024, continuing to outpace the previous two years. However, during Q3, the market saw a slowdown due to heightened volatility and seasonal factors, limiting issuers' access to the equity market.

Market conditions have opened a favorable window for issuers at the start of Q4. Strong corporate earnings, coupled with the much-anticipated interest rate cuts by the U.S. Federal Reserve, have provided tailwinds for issuance. In October alone, there have been seven IPOs and 10 follow-on offerings, demonstrating the overall strength of the market.

As we approach the U.S. presidential election, issuance is expected to slow as buy-side investors will likely adopt a more conservative approach to mitigate volatility risks. We anticipate selected ECM transactions to be priced for the remainder of 2024, with many issuers opting to wait until Q1 2025. Continued corporate earnings strength and favorable Federal Reserve policies are expected to sustain ECM activity into 2025.

*Source: Dealogic.
Note: 2024 U.S. IPOs above \$50 million as of October 17, 2024, excluding SPACs and closed-end funds.*

Key Takeaways

2024 has continued to deliver steady deal flow, with favorable market conditions allowing mid-cap and large-cap issuers to transact. Small-cap issuers, however, largely remain on the sidelines, waiting for anticipated interest rate cuts by the U.S. Federal Reserve to improve market conditions for small-cap issuers.

IPO activity slowed in Q3 but subsequently started Q4 strong, with seven IPOs pricing in October. The largest IPO to date in 2024 came from Lineage Inc., which raised \$5.1 billion in July. For the remainder of the year, IPO activity is expected to slow as we approach the U.S. presidential election, as issuers typically avoid launching IPOs in the weeks leading up to major elections.

Follow-on activity has remained consistently strong throughout 2024, with 72 transactions pricing in Q3. September was the second most active month of the year for follow-ons in both deal volume and proceeds. Three of the five largest follow-ons in 2024 were priced in Q3, underscoring the market's strength and the strong appetite for capital deployment from buy-side investors. Selected issuers are expected to continue tapping the market through the end of the year, with several large-cap issuers anticipated to access the capital markets to raise primary proceeds before the end of the year.

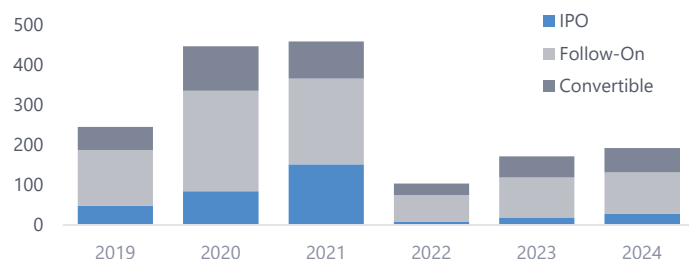
Convertible transactions saw a sharp decline in proceeds, dropping by more than 50% in Q3, resulting in one of the lowest activity quarters for this product since 2023. The Federal Reserve's policy decisions are expected to remain a key factor influencing the convertible market, with anticipated interest rate cuts likely prompting issuers to delay issuance in hopes of securing better terms in the future.



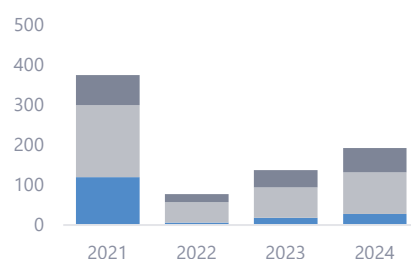
U.S. ECM Activity

Issuance by Product 2024 YTD vs. Prior Five Years

Proceeds Raised (\$B)



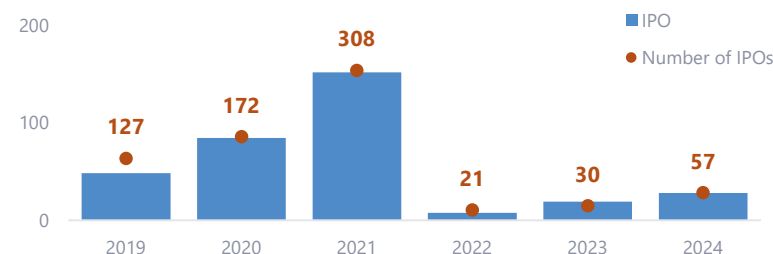
YTD Comparison



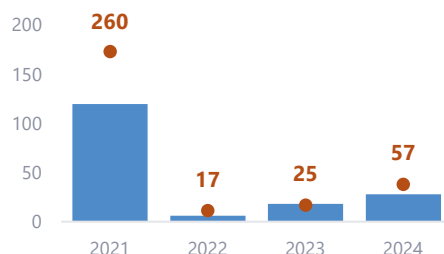
- ECM volume for 2024 YTD totaled \$192 billion, eclipsing 2023's total of \$171 billion. YTD volumes for 2024 have now surpassed the previous two years across all products (IPOs, follow-ons, and convertibles).
- Despite a slow Q3, convertibles have had a strong year with more than \$60 billion in issuance, while follow-on and IPO volume continues at a steady pace.

U.S. IPOs 2024 YTD vs. Prior Five Years

Proceeds Raised (\$B)



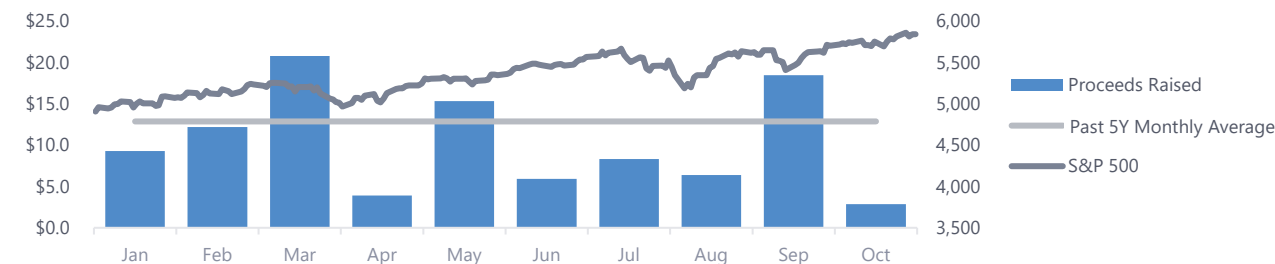
YTD Comparison



- IPO activity has noticeably increased, with 57 deals priced in 2024, raising \$28 billion, compared to 30 deals raising \$19 billion for all of 2023. While IPO activity has not yet returned to pre-COVID-19 levels, market participants remain optimistic.
- The IPO market continues to favor more established companies but has shown signs of broadening, with higher-quality mid-cap issuers tapping into the market.

U.S. Follow-Ons 2024 YTD

Proceeds Raised (\$B)



- Follow-on activity has continued at a steady pace, with the market showing signs of a shift towards more primary proceeds in the past two months. September was the first month in 2024 where primary proceeds significantly outpaced secondary proceeds.
- There continues to be a strong need for secondary selling as sponsors are experiencing longer-than-anticipated hold periods, prompting a sense of urgency to provide liquidity to LPs.

Key Takeaways

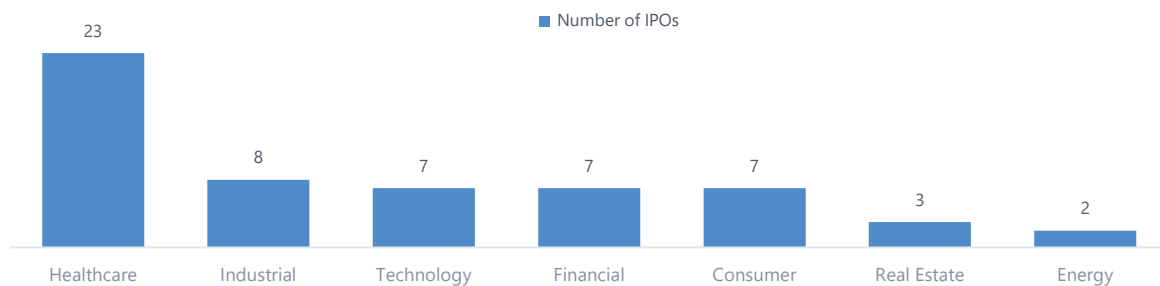
U.S. ECM proceeds in 2024 have surpassed total proceeds for 2023, with all three major products also exceeding 2023 levels. This demonstrates the overall strength of the market.

The market has shown signs of opening for selected mid-cap issuers but remains focused on high-quality companies with strong track records and a history of steady growth.

Secondary selling remains a key driver of ECM activity in 2024; however, the market has started to shift as issuers have increasingly sought to raise primary proceeds over the past two months.

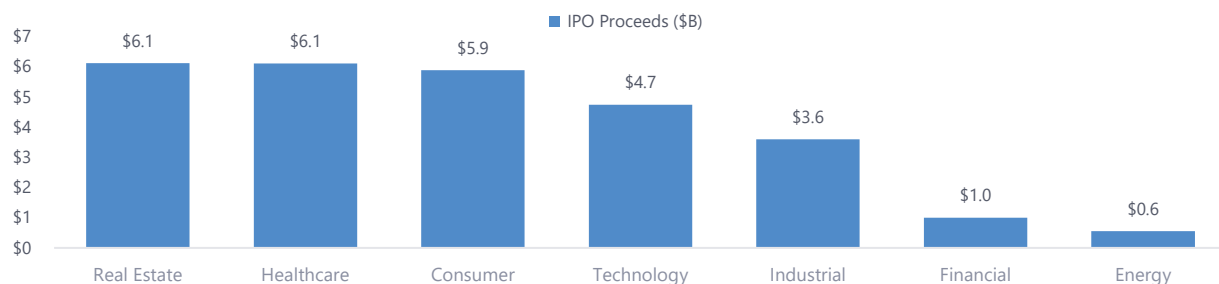
U.S. ECM Activity (cont.)

IPOs by Sector 2024 YTD



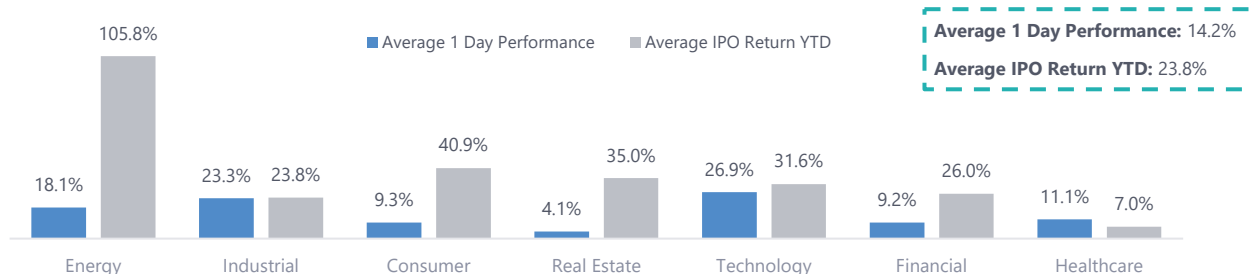
- Healthcare has been the most active IPO sector, accounting for over 40% of deal volume in 2024.
- With the sharp decline in market share for technology IPOs, less traditional sectors have experienced increased activity.
- Buyside investors continue to prioritize steady growth and business resilience, leading to an uptick in IPOs within the industrial and financial sectors.

IPO Proceeds by Sector 2024 YTD



- The July pricing of cold storage REIT Lineage, the largest IPO of the year, has kept real estate as the top sector by proceeds despite only three transactions in the sector.
- Recent IPO activity in the healthcare sector has made it the second-largest sector by proceeds in 2024 so far.
- Average IPO size is down across all sectors, as valuations have generally compressed.

IPOs Performance by Sector 2024 YTD



- Healthcare IPOs continue to underperform, while more stable sectors have provided stronger returns for investors.
- Although sector-specific returns remain above overall IPO returns in aggregate, many IPOs are currently trading below their initial prices, reinforcing investors' more selective approach.

Key Takeaways

The technology sector has experienced a decline in IPO activity as buyside investors increasingly seek more stable companies with a history of consistent performance and proven business resilience.

Despite the deal volume from the industrial and financial sectors, proceeds raised remain on the lower end as these IPO issuers have targeted smaller offerings and valuations have compressed.

IPO performance has been muted in 2024, with energy emerging as a clear outlier. Despite strong deal volume, healthcare continues to underperform the rest of the IPO market.

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