Houlihan Lokey

Equity Capital Markets Update

Q1 2025

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 for Q1 2025.

ECM activity started the year on the right foot, building on a constructive 2024, but faltered due to market uncertainty brought on by developments in Washington, D.C. Market participants were optimistic for 2025, with several high-profile IPOs expected in early 2025, but with the market volatility, issuers are once again sitting on the sidelines. Investors are still trying to quantify the impact of the fundamental shift in U.S. trade policy—which makes it hard to predict when the issuance window might open. We expect to see select open windows through 2025, increasing the importance of issuers preparing well in advance to take advantage of these open windows.

U.S. equities sold off at the announcement of broad tariffs on April 2, 2025, with the S&P 500 down ~19% from the 52-week high in February 2025. The bond market also reacted sharply to the announcement, with yields increasing by ~25 bps since April 2, 2025.

Key Takeaways

$61 billion in total proceeds were raised in Q1 2025, despite the ECM deal flow sharply dropping off at the end of Q1 2025. Total proceeds did fall short of 2024 levels but still outperformed the previous two years. The hallmark of Q1 2025 activity included large shareholders taking advantage of market conditions to conduct secondary selling with a handful of IPOs and in the follow-on market, with secondary selling making up a majority of proceeds raised.

IPOs were a bright spot in Q1 2025 with $8.3 billion in IPO issuance, resulting in more proceeds raised than in Q1 2024. The IPO market was bolstered by several large IPOs launching early in the year but has since struggled as 2025 IPO performance faltered with the declining equity markets.

The follow-on market started the year strong; high activity in February resulted in more issuance in the first two months of the year than in 2024. Secondary sellers took advantage of the market conditions in January and February, making up ~81% of total proceeds raised during the first two months. March proved to be a slower month, resulting in a total of $37 billion of total proceeds raised in Q1 2025, down ~12% YoY.

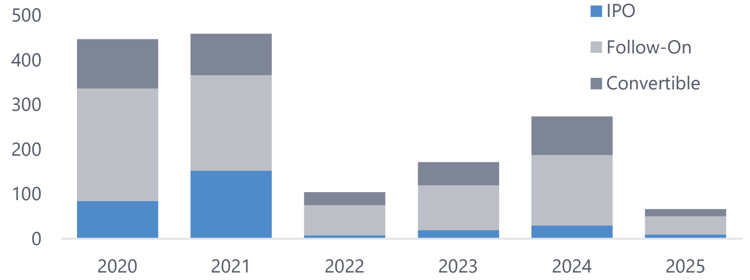
Convertibles continue to be a popular capital-raising tool for issuers, with $15 billion in convertible issuance in Q1 2025. While the mark fell short of 2024 levels, the convertible market remains a viable path for many companies to raise capital as interest rates continue to stay elevated and volatility remains high. The increased volatility in the market could prove to continue to bolster the convertible market as many companies look to raise capital in 2025.

Source: Dealogic.
Note: U.S. IPOs above $50 million as of April 21, 2025, excluding SPACs and closed-end funds.

U.S. ECM Activity

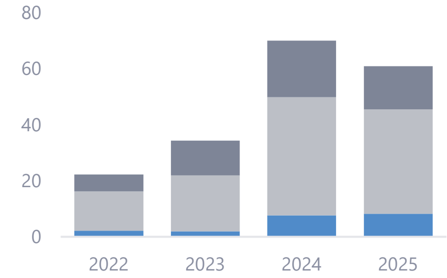
Issuance by Product 2025 YTD vs. Prior Years

Proceeds Raised ($B)



Q1 Comparison

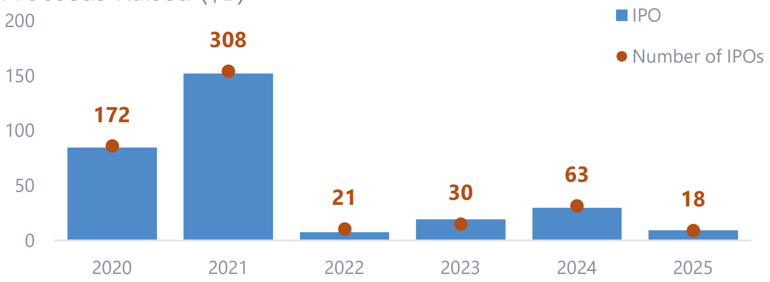
Proceeds Raised ($B)



- ECM volume for Q1 2025 totaled $61 billion, falling short of Q1 2024 levels, with $70 billion of total proceeds. While Q1 2025 was outpaced by Q1 2024, it ranks as an average start to the year compared to the past 10 years.
- After starting the past three years with YoY growth in the convertible market, convertibles cooled, with issuance declining ~23% in Q1 2025 despite a strong start to the quarter with several $1 billion plus convertible offerings.

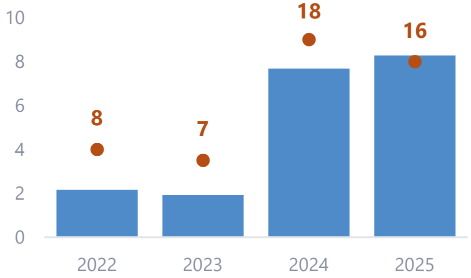
U.S. IPOs 2025 YTD vs. Prior Years

Proceeds Raised ($B)



Q1 Comparison

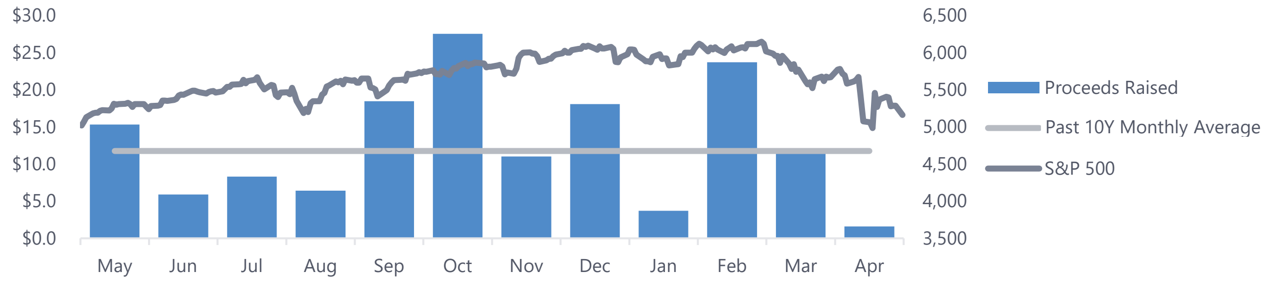
Proceeds Raised ($B)



- IPO activity started the year strong and was the only ECM product that showed growth compared to Q1 2024. The market skewed to larger deals, with two fewer deals pricing in Q1 2025 compared to last year despite the uptick in IPO proceeds.
- The IPO market continues to favor more established, larger-scale companies, and with increased market volatility, it is likely to continue to skew toward large-cap issuers.

U.S. Follow-Ons 2025 YTD

Proceeds Raised ($B)



- Follow-on activity was down 11% YoY in Q1 2025 due to a slow start in January, but it rebounded with strong issuance in February.
- Follow-on activity was boosted by secondary sellers looking for liquidity. There were over $22 billion of secondary selling in January and February, representing more than 80% of all follow-on proceeds. The large amount of secondary selling underscores the need for liquidity for sponsors and large shareholders.

Key Takeaways

U.S. ECM markets started 2025 with momentum but faced challenges due to market declines. The early-year market activity demonstrated the strong demand for secondary selling and a pipeline of mature private companies looking to IPO and access the capital markets.

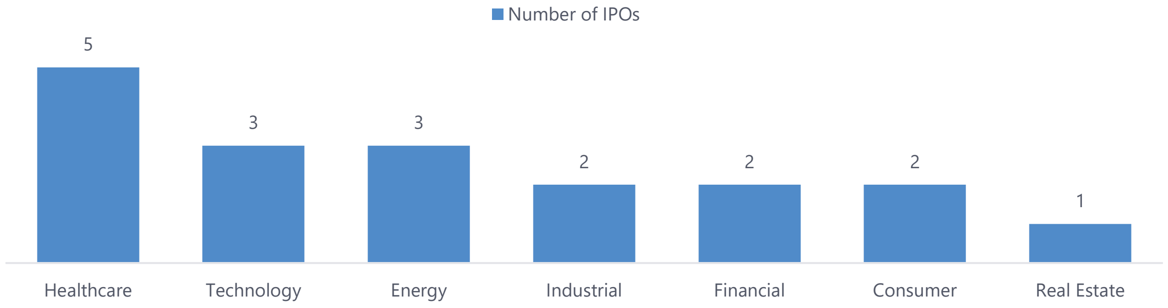
The IPO market started the year with optimism, but with several large IPOs faltering and increased market volatility, issuers have taken a wait-and-see approach. There is an expectation of select issuance windows throughout the year—leading companies to remain ready when the time comes.

The follow-on market started the year slowly, with deal activity picking up in February, boosted by large secondary selling from sponsors and large shareholders. The activity shows the need for liquidity for large shareholders, creating a natural pipeline for increased deal activity during select open windows.

Sources: Dealogic, S&P Capital IQ.
Note: U.S. ECM transactions above $50 million as of April 21, 2025, excluding SPACs and closed-end funds.

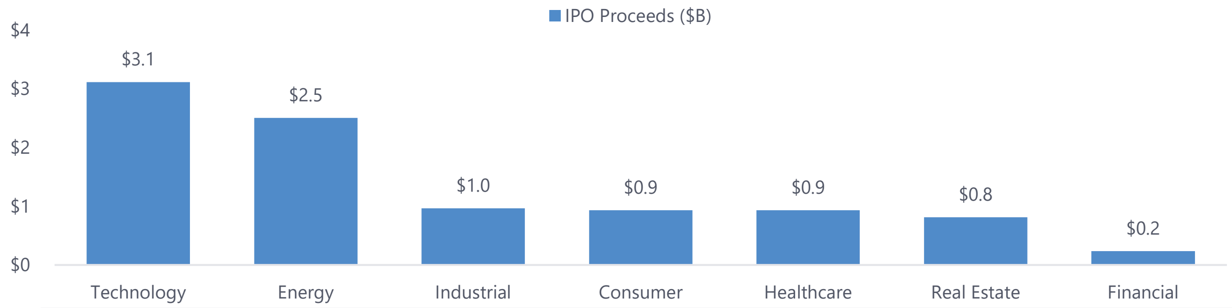
U.S. ECM Activity (cont.)

IPOs by Sector 2025 YTD



- Healthcare was the most active IPO sector in 2025 with five transactions so far this year. Healthcare is traditionally the most active ECM sector during all market conditions.
- The energy sector started the year strong with three IPOs. Traditionally, energy is a less active sector, but in the prior two years, there has been an increase in energy ECM activity.

IPO Proceeds by Sector 2025 YTD

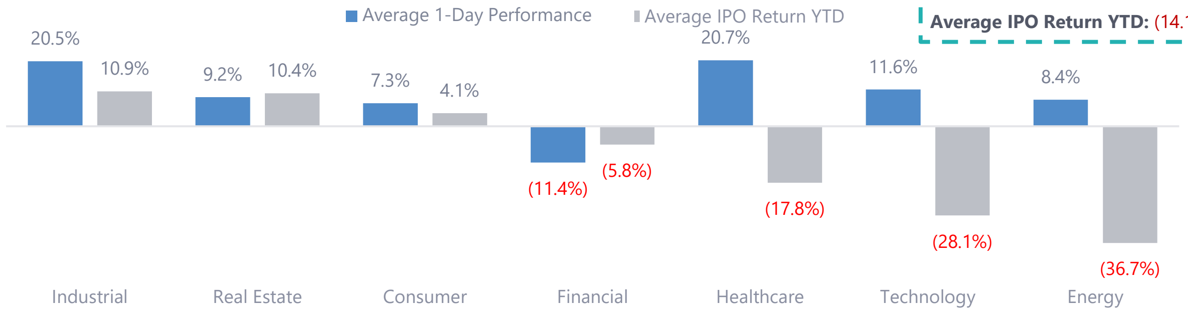


- Large IPOs in the technology and energy sectors led to outsized proceeds raised compared to other sectors.
- Despite having the greatest number of deals in 2025, healthcare proceeds ranked lower than expected. Healthcare transactions often have a smaller market capitalization, and the volatile market conditions caused healthcare issuers to opt for smaller deals.

IPOs Performance by Sector 2025 YTD

Average 1-Day Performance: 11.4%

Average IPO Return YTD: (14.1%)



- IPO performance has been mixed to start the year, with market conditions resulting in less than desirable returns for buyside investors.
- The overall performance of the IPO market is a concern for future deals, as investors have not gotten the traditional IPO pop and resulting alpha among the market volatility.
- Industrial, real estate, and consumer are bright spots as the only sectors to have both positive short-term and long-term gains.

Sources: Dealogic, S&P Capital IQ.
Note: 2024 U.S. IPOs above $50 million as of April 21, 2025, excluding SPACs and closed-end funds.

Key Takeaways

The shift in 2024 to less traditional IPO sectors seemed to normalize in 2025 with healthcare and technology ranking as the top two sectors in terms of deal activity. We continue to see issuance from less traditional sectors as a carryover from 2024.

Several large transactions in the technology and energy sectors resulted in higher-than-average proceeds raised. There continues to be an emphasis on larger transactions from buyside investors, which will likely result in more activity in the technology, energy, and industrial sectors.

IPO performance by sector shows a story of haves and have nots. Industrials, real estate, and consumer are the only sectors with positive performance in both one-day and YTD returns. Energy and technology suffered losses due to several high-profile transactions trading poorly.

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