SVCA Singapore Venture Capital & Private Equity Association

PE/VC-backed Initial Public Offerings (IPOs)

Study & Industry Commentary

APRIL 2020

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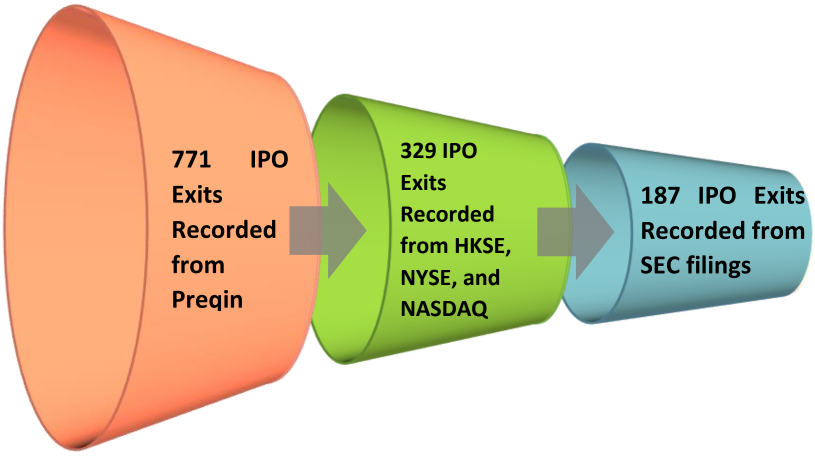
Methodology

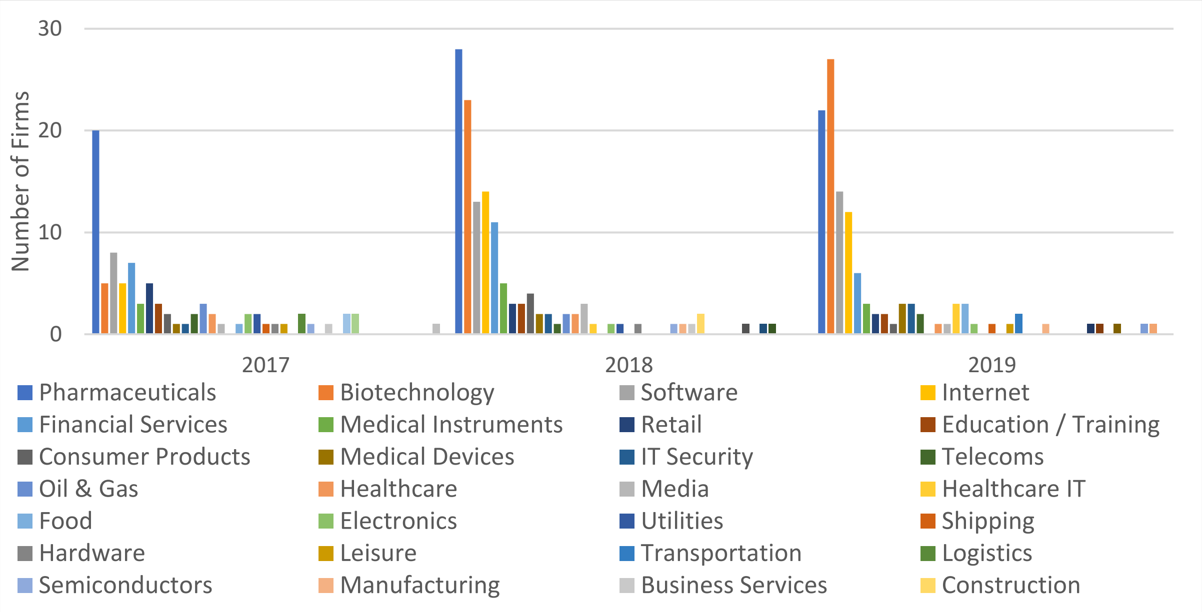


For this study by SVCA, data was gathered from Preqin, CB Insights and publicly available sources including company records, SEC filings and Yahoo Finance. Of the 771 PE/VC-backed Initial Public Offerings (IPOs) from 2017 to 2019, 329 were listed on the Hong Kong Stock Exchange (HKSE), New York Stock Exchange (NYSE), and NASDAQ. Of these, details on share prices, conversion rates/stock splits were gathered for 187 IPOs filed with the SEC.

Share prices were compared between last round of VC funding (pre-IPO price), at IPO and 6 months after IPO (post-IPO price). Results were also compared between 46 unicorns (companies with pre-IPO valuation above US$1bn) and 141 non-unicorns.

PE/VC-backed IPOs Overview

Fig. 1: IPOs on NYSE, NASDAQ, HKSE from 2017 – 2019 by Industry Segment



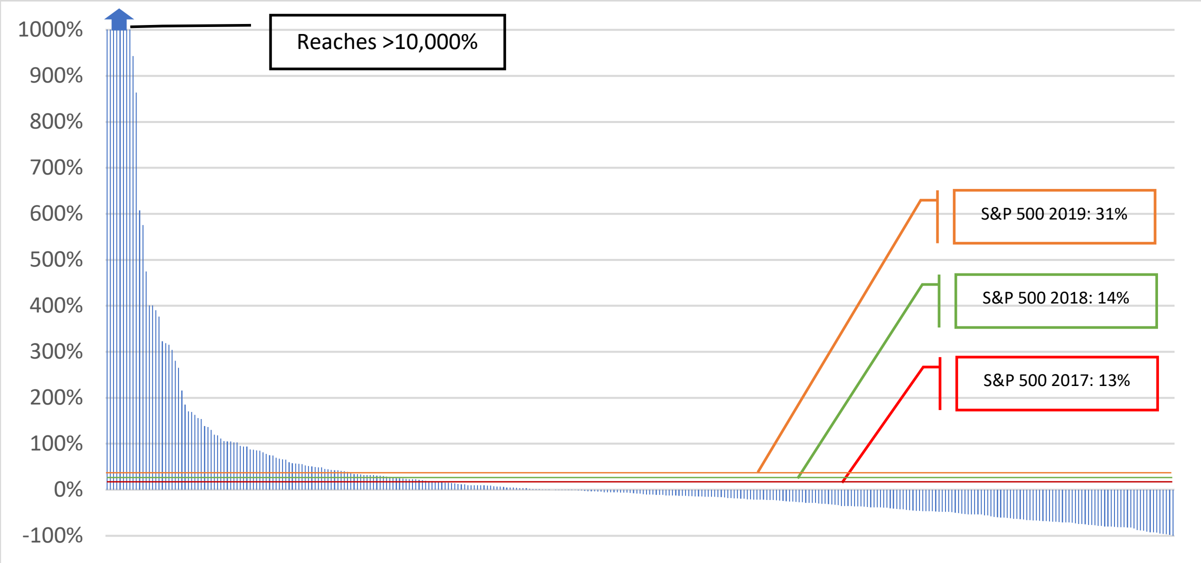
Graphs & Analysis: SVCA
Using Raw Data Compiled from Preqin, SEC Filings, Yahoo Finance

Deep tech businesses dominated PE/VC-backed IPO numbers. In particular, Pharmaceuticals, Biotechnology, Software, Internet and Financial Services were consistently ranked within the top five industry segments.

Dr Finian Tan
Chairman
Vickers Venture Partners

We used to be a top quartile generalist VC investing in B2C, B2B, deep tech etc. But over the years we realise that guessing whether the market will buy a particular product or service required more guesswork compared to assessing whether a technology would work, especially in areas of our expertise. So, we decided to just take one risk - tech, rather than multiple risks. Since then, our homeruns doubled and our failure rate halved. So we doubled down on the strategy, recruited more deep tech experts, open offices in regions where such deep tech deals are in abundance, and our performance exploded. Today, we are focussed on the 3 key tech trends that underpin the tech revolution of the next few decades, biotech, nanotechnology and artificial intelligence and have PhDs in all 3 fields.

Fig.2: Extended Rate of Return (XIRRs) of PEVC-backed Companies against S&P 500 (329 IPOs)



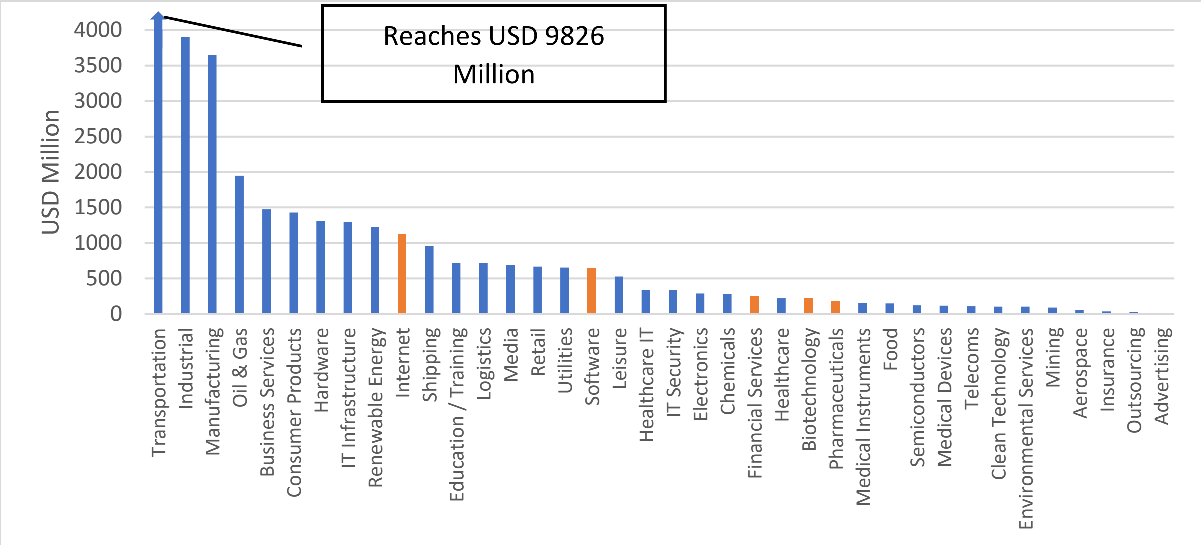
Graphs & Analysis: SVCA

Post-IPO Performance

Using extended internal rates of return (XIRRs), assuming a hypothetical investment at the IPO price and divestment on 30 December 2019, the performance of PE/VC-backed companies were compared against the 1-year and 3-year S&P500 benchmarks ending in 2019.

32.8% outperformed the 3-year S&P 500 index of 13% and 25.2% outperformed the 1-year S&P 500 of 31%.

Fig. 3: Average VC-Funding Prior to IPO by Industry (from Seed/Series A to IPO)

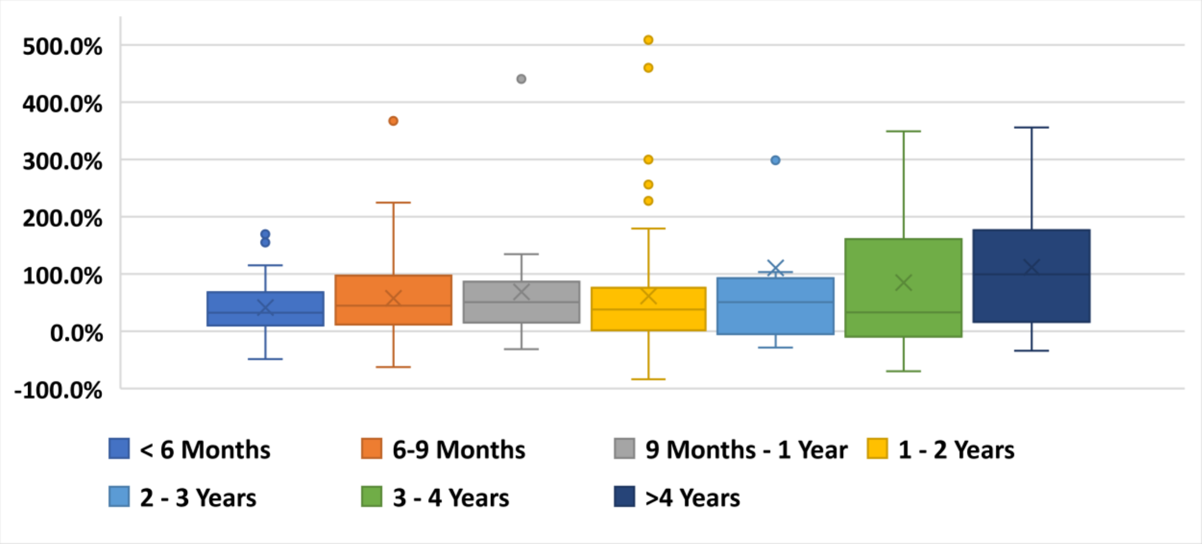


Graphs & Analysis: SVCA
Using Raw Data Compiled from Preqin, SEC Filings, Yahoo Finance

On average, companies in the Transportation, Industrial, and Manufacturing industry segments raised the most funding prior to IPO. It should be noted that the Transportation Industry was populated by only 2 unicorns; Lyft and Uber which raised a combined funding of USD 19.65 bn prior to IPO. It is also noted that companies in Biotechnology, Pharmaceuticals and Financial Services (consistently within the top 5 IPO industry segments) raised on average less than USD250m prior to IPO.

VC-backed IPO Price Comparisons

Fig. 4: Pre-IPO and IPO Price Percentage Change



Graphs & Analysis: SVCA
Using Raw Data Compiled from Preqin, SEC Filings, Yahoo Finance
(The "X" s denotes average, the middle lines denote medians. Dots denote outliers.)

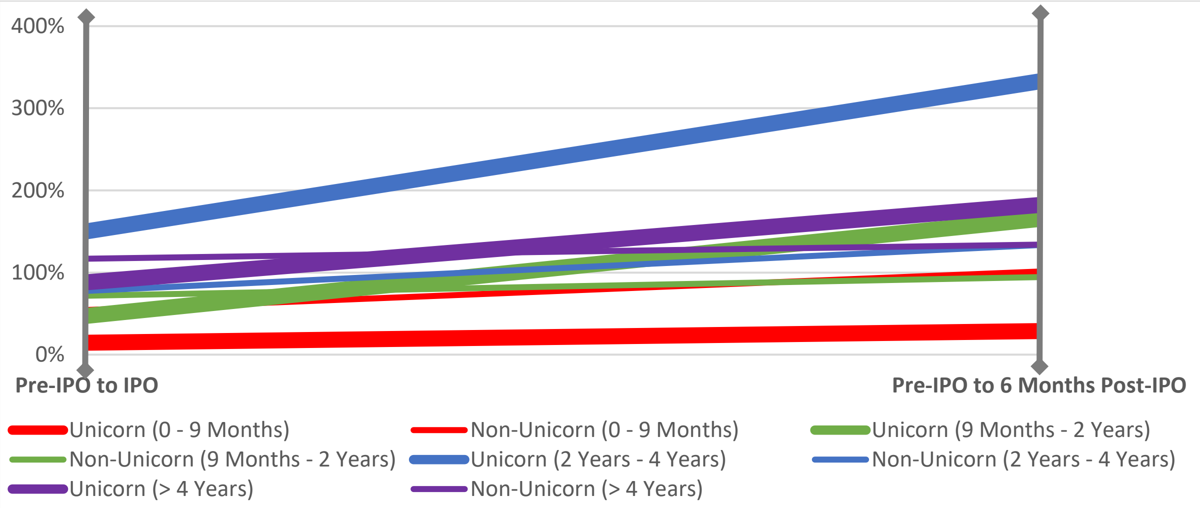
Clearly, the longer the time period between the last private financing round (pre-IPO) and the IPO, the greater the price increase at IPO. This could be an indication of the companies' better financial position (hence reduced need for subsequent private financing). The longer time period would also have allowed the business to show significant growth justifying the increased price at IPO. This also debunks the myth that a pre-IPO round close to the IPO date can help to boost the price at IPO.

Overall, about 20% of companies suffered a lower valuation at IPO than its last private round.

A company deciding to go for a down round depends on several factors – does the company have immediate cashflow needs ; which sector or sub-sector is the business in and what is the outlook of this specific business in the current scenario; what are the measures the business has put in place to control costs and more. If a company urgently needs cash and is affected deeply by the current situation, it may be forced to do a down round.

Srividya Gopalakrishnan
Managing Director and
Southeast Asia Leader
Valuation Advisory
Duff & Phelps

Fig. 5: Average Price Changes from pre-IPO to IPO and pre-IPO to post-IPO (Unicorn vs non-Unicorns)



Graphs & Analysis: SVCA
Using Raw Data Compiled from Preqin, SEC Filings, Yahoo Finance

On average, unicorns outperformed their non-unicorn counterparts with the exception of unicorns which raised their last private round within 9 months of going public. Six months post-IPO, these unicorns grew in value on average only 7% compared to more than 46% for the unicorns which raised their last private round more than 9 months prior to IPO reflecting a possible public perception that the former were already fairly or overvalued at IPO.

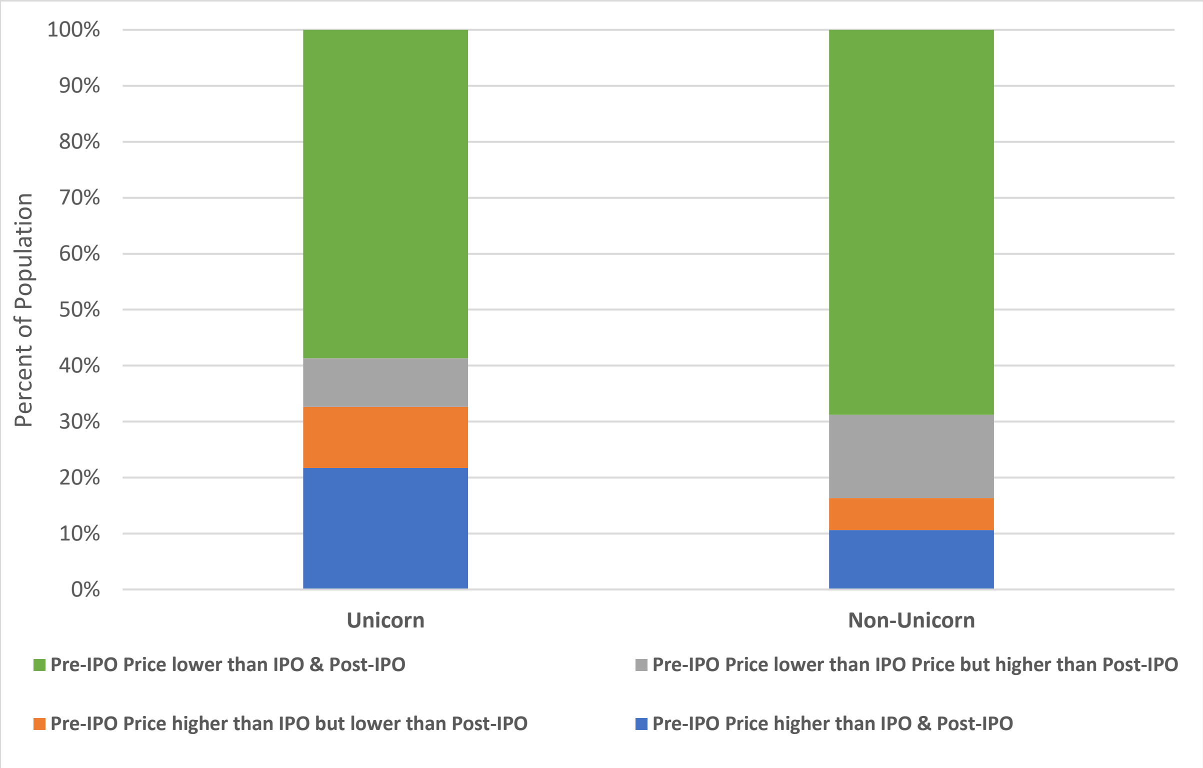
Unicorn Last Private Round to IPO	0 - 9 Months	9 Months - 2 Years	2 Years - 4 Years	> 4 Years
Average Increase IPO to 6 Months Post-IPO	7%	98%	46%	50%

Srividya Gopalakrishnan
Managing Director and
Southeast Asia Leader
Valuation Advisory
Duff & Phelps

Stock markets indices across the world have seen a significant double-digit percentage fall since the beginning of the year. Many economies are predicting recession for 2020. Generally speaking, valuation for most affected sectors will reduce, the proportion of reduction varying based on several factors. How quickly the tide can turn or the valuations recover, depends on how soon this crisis can be overcome and how swiftly the business can bounce back.

There are several uncertainties at this point of time.

Fig. 6: Pre-IPO – IPO – Post IPO Trend by Unicorn Status with Pre-IPO Basis



Graphs & Analysis: SVCA
Using Raw Data Compiled from Preqin, SEC Filings, Yahoo Finance

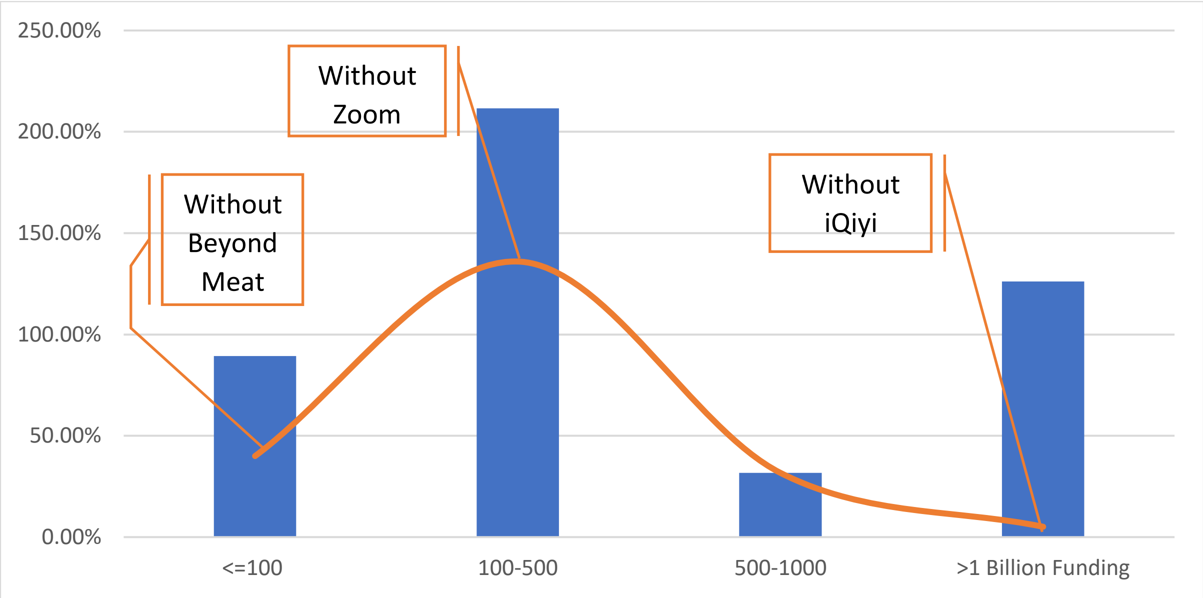
32.6% of unicorns listed at values below their last private round although 10.76% recovered 6 months after IPO. Thus, unicorns are twice as likely to suffer a drop in valuation at IPO compared to non-unicorns. Six months post-IPO, 30.4% of unicorns were below their valuation at the last private round, compared to 25.5% of non-unicorns which suffered the same fate.

Mohamed Nasser Ismail,
Global Head of Equity
Capital Markets, SGX

The data from this study points to some of the challenges in delaying too long to go public as most of the upside has been priced into the private rounds. And yet, the public market remains the most efficient and sustainable platform for companies to consistently raise funds and gear up for long-term success. The private space has many advantages and opportunities for businesses, but it also encourages investment in higher risk asset classes. Moving those companies into the public space mitigates some of that risk.

The current environment in particular is a reminder that transparency, governance, discipline and community interest from public markets are all important elements that build investor confidence and ultimately shape companies to become more strategic and sustainable in the long run.

Fig. 7: Average Percentage Increase between Unicorns' Post-IPO vs Pre-IPO Price by Funds Raised Prior to IPO



Graphs & Analysis: SVCA
Using Raw Data Compiled from Preqin, SEC Filings, Yahoo Finance

Based on the performance of 46 unicorns that went IPO in 2017-2019, unicorns that raised between USD 100 – 500 million in total funding far outperformed unicorns which raised more or less in funding. Even eliminating the outliers in each category such as Beyond Meat (raised <USD100m), Zoom (raised USD100-500m) and iQiyi (raised more than USD1 bn), the results still indicate a sweet spot for the USD100-500m range.

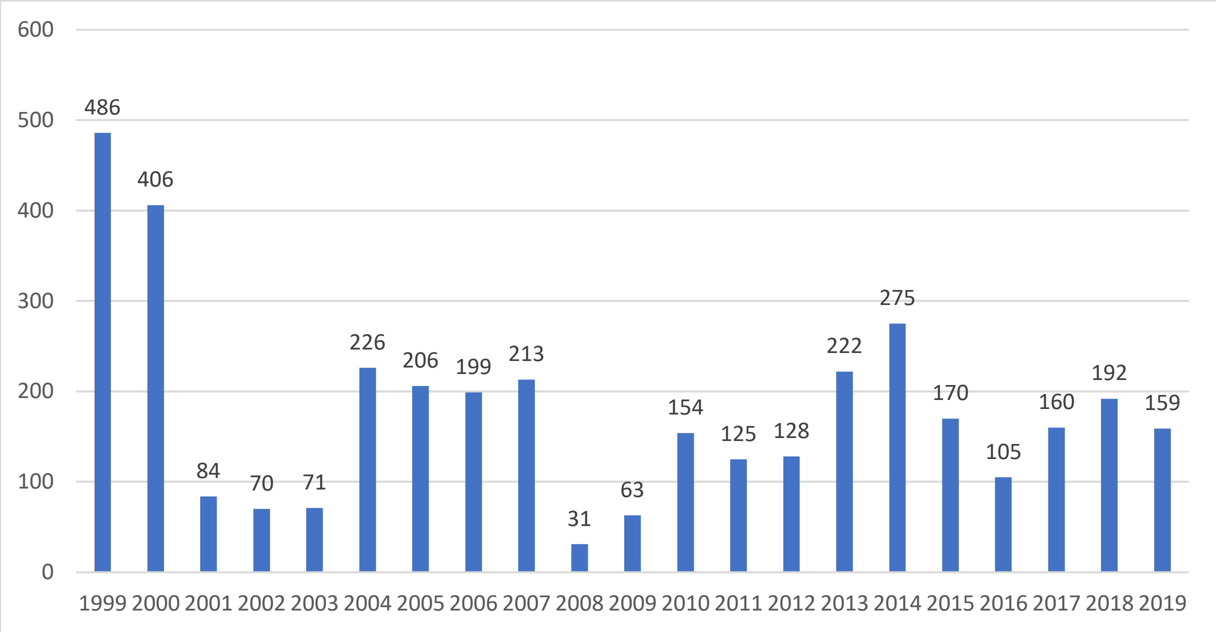
Jixun Foo
Managing Partner
GGV Capital

An economic downturn is a reality check for all businesses, unicorns or not. When an overheated market cools down, good companies emerge faster and stronger. Capital efficiency also increases when investors start to recalibrate and go back to the fundamentals. With that said, the digital economy will continue to grow as technology transforms the traditional one. In those markets, existing unicorns with solid numbers and management teams are better positioned to win.

The "market share at all cost" approach will receive much more skepticism, as people are reminded that the model only works if time is on your side. Amazon burned money for all the right reasons and was incredibly disciplined in its spending. Going through a tough time like this will help startups to focus and be more responsible in their spending.

Concluding Commentary

Fig. 8: Number of IPOs in US Markets



Source: Statista 2020

While the report is based on data gathered well before the current downturn caused in large measure by the Covid-19, it is clear that figures for IPO in the US markets have hobbled below 200 for the past 5 years, well below the numbers prior to the GFC. IPOs of PE/VC-backed businesses have however consistently exceeded 50%. This study has shown that even under the cast of unicorn spells, businesses with sustainable business models reinforced by underlying innovation or technology have withstood the vagaries of public markets.

As the world reels from the current downturn and braces for the new normal, past recoveries have shown that new opportunities will emerge from crises. Our forced experiments into new ways of learning, living, playing and working will translate into great opportunities for PE and VC in the years to come.

Definitions

Cut-off Date : 30 December 2019.

Pre-IPO price : The Pre-IPO price is price at the last round of private investment

Pre-IPO date : The Pre-IPO date is defined as the date of the last round of private investment

Post-IPO price: The Post-IPO price is the price 6 months after the IPO date

Post-IPO date: The Post-IPO price is defined as the date 6 months after the IPO date

IPO price : The IPO price is as defined in the SEC filings

IPO date : The IPO date is defined as the date of the IPO.

Unicorn : Businesses with valuations equal to or exceeding USD 1 billion prior to IPO

Data Sources

Public Filings on SEC.gov

Yahoo Finance

Acknowledgements

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