



Houlihan Lokey

Public Equity Advisory

# Equity Market Update

DECEMBER 2022



# Introduction

## Dear Clients and Friends,

With only a handful of transactions still to close, we are pleased to present you with our Equity Markets Update and review of equity capital markets (ECM) activity in 2022.

The record-breaking year last year was always going to be a hard act to follow, but as we moved into 2022 with equity markets at all time highs, few would have predicted that this year would be such a challenging one for equity markets and ECM issuance. The fall in activity levels has been particularly acute in the US and Europe, with much of the expected IPO pipeline pushed into 2023 and in some cases, beyond.

The equity markets have and will continue to endure multiple headwinds and uncertainties (inflation, interest rates, recessionary risk, China's ongoing response to COVID-19, war in Ukraine, cryptocurrencies, and falling property prices, to name a few). Volatility is likely to persist, and markets will continue to be at the mercy of central bank policies as investors look for year-on-year inflation rates to decline materially. As we approach year end there are signs that inflation is peaking, which has enabled equities to recover some of their losses and we note that peaking inflation has historically been a positive for equity markets.

Notwithstanding the improved equity market backdrop (that many commentators are questioning/expect to be a false dawn), we expect IPO volumes in the US and Europe to remain muted until well into 2023, driven by business uncertainty, a valuation gap in many sectors, and the acceleration of potential IPOs during 2021 exacerbated by the SPAC boom. We will, however, continue to see selected transactions (e.g. defensive sectors, carve-outs or trophy assets) complete.

We hope you find this update helpful. If there is additional content you would find useful for future Issues, please don't hesitate to call or email us with your suggestions.

We look forward to staying in touch with you.

Kind regards,



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## Houlihan Lokey's Areas of Public Equity Advisory Expertise

**Initial Public Offerings**

**Public M&A**

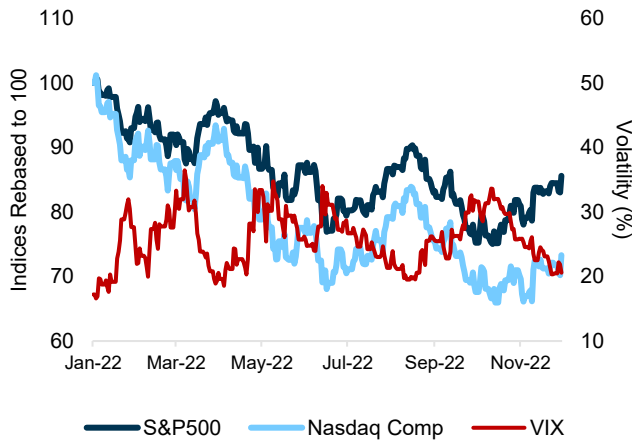
**Sell-Downs**

**Follow on Capital Raises**

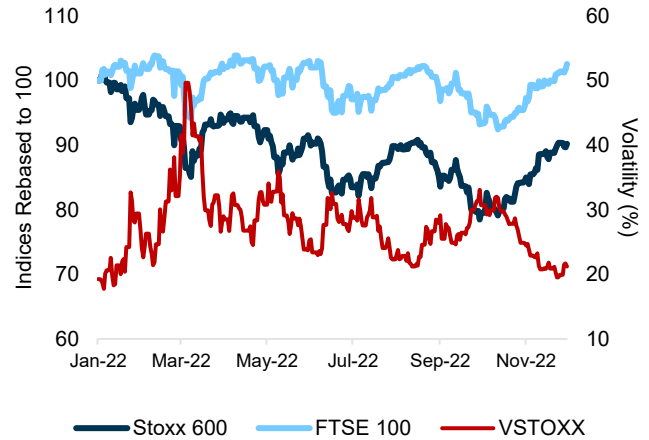
# Equity Market Overview

After a difficult H1, equity markets have improved in H2 to date, as corporate earnings beat forecasts and expectations over the extent of future interest rate hikes were reduced. Many of the more cyclical sectors that sold off heavily have been recent outperformers and value continues to outperform growth with the MSCI value index up 10% in H2 to date versus a 5% increase in the MSCI growth index.

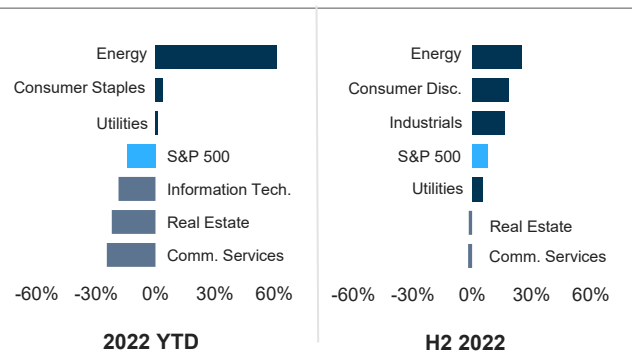
## US Equity Indices



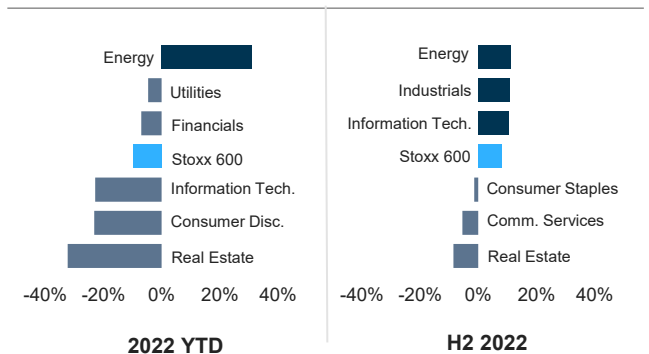
## European Equity Indices



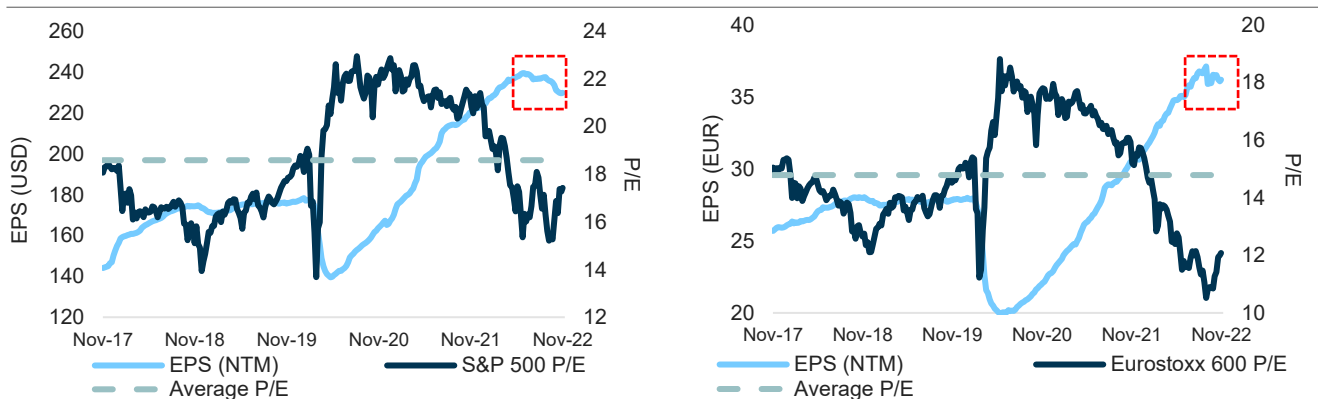
## S&P 500 Best and Worst Sectors: YTD vs. H2\*



## Stoxx 600 Best and Worst Sectors: YTD vs. H2\*



## Downward Earnings Revisions Have Started but Remain Limited

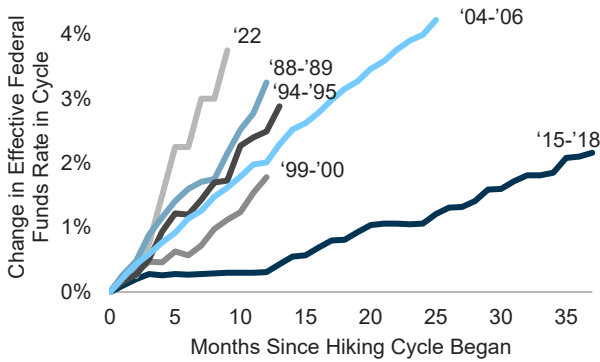


- Earnings forecasts have started to fall, more in the US than Europe, but further downward revisions are widely expected, undermining the argument that stocks look cheap on a P/E basis.

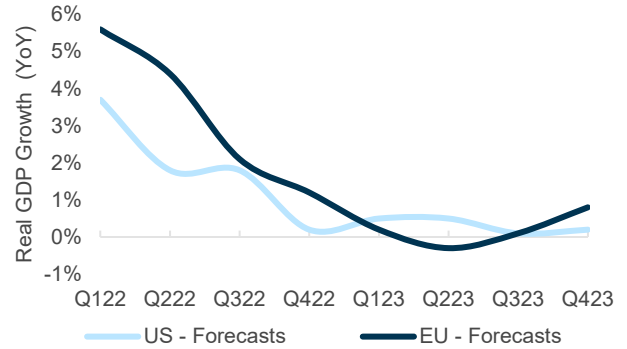
# Key Market Themes

Controlling inflation via monetary tightening has been one of the key themes of 2022. Data is increasingly signaling that inflation may have peaked, which has historically been a positive catalyst for equity markets, although inflation may still take time to get back under control.

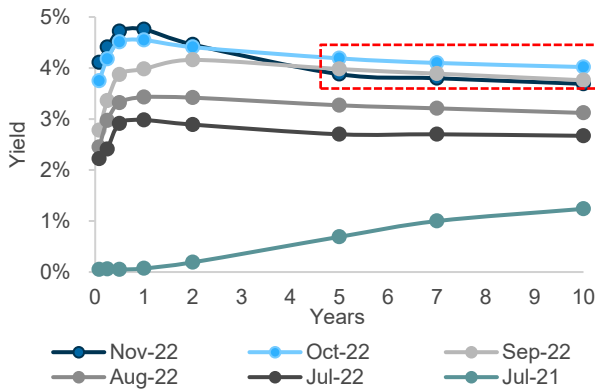
## Aggressive Central Bank Tightening...



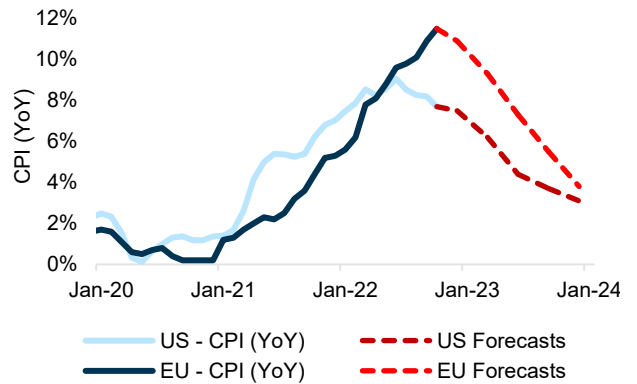
## ...Has Impacted the Growth Outlook...



## ...But Rate Expectations Have Started Falling...

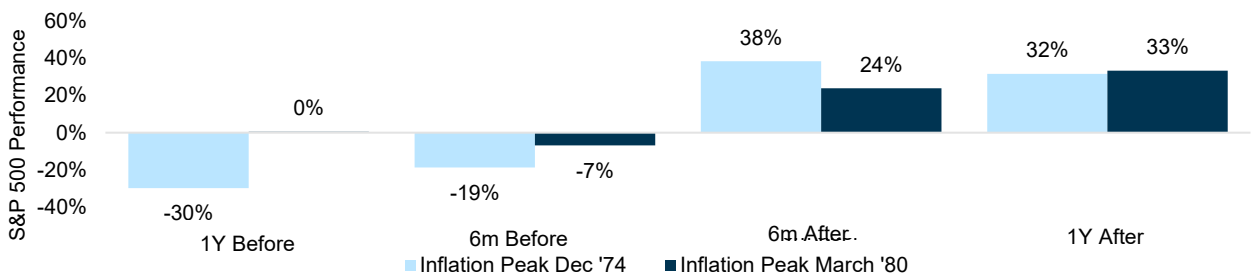


## ...As Inflation is Believed to Have Peaked



- Aggressive rate hikes have pushed yields sharply higher and the yield curve has been inverted since July—a clear sign of a possible recession.
- Recent falls at the medium and longer end of the yield curve suggest the market believes central banks will succeed in taming inflation—this is also reflected in consensus inflation forecasts.

## Historically, the S&P 500 has Rallied Post Major Inflation Peaks (>10% CPI YoY)

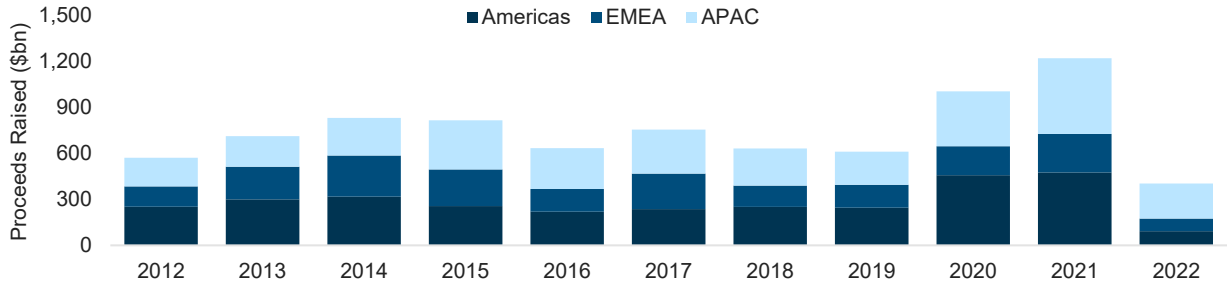


- In previous examples of major inflationary peaks in the 70s and 80s, equity markets sharply rebounded in the following months—inflation will remain a key indicator to watch.

# Global ECM Activity

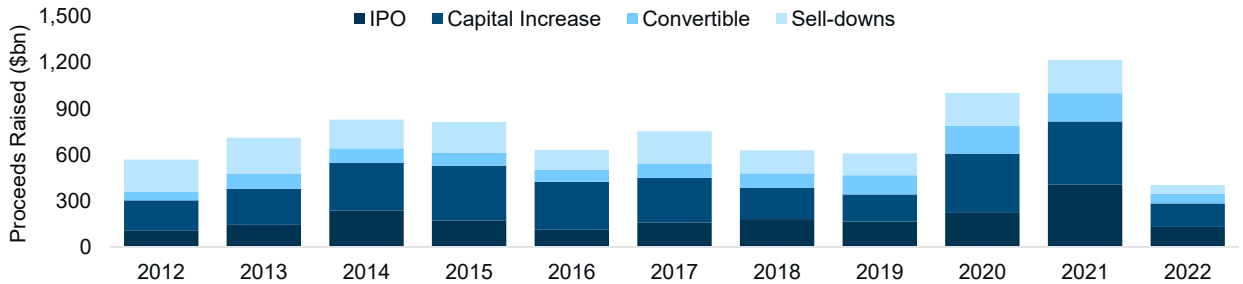
Against a backdrop of volatile and falling markets, ECM activity has been severely impacted—with only December, a short month for deal activity remaining, 2022 looks certain to be the weakest year for global ECM issuance since 2003.

## Issuance by Geography: 2022 YTD vs. Prior 10 Years



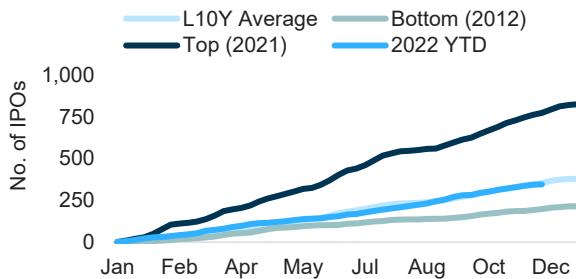
- Asia has been the clear outperformer this year, with the region representing approximately 57% of global issuance. This is the first year in which we can identify that issuance in Asia has accounted for more than half of global issuance
- China has been dominant in the region despite a strict “zero-COVID” policy and multiple lockdowns.

## Issuance by Product: 2022 YTD vs. Prior 10 years

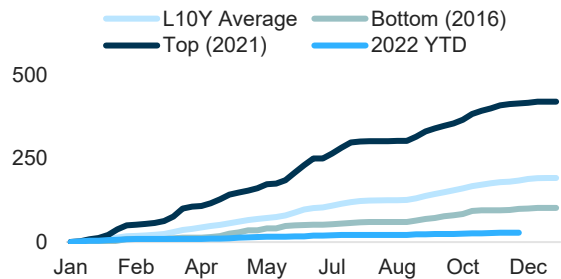


- Issuance is well below average across all products but sell-downs/secondary sales, which are down more than 70% from the 10-year average, have seen the biggest fall in volumes.

## Cumulative Number of IPOs Per Week | Global



## Cumulative Number of IPOs Per Week | US-EU

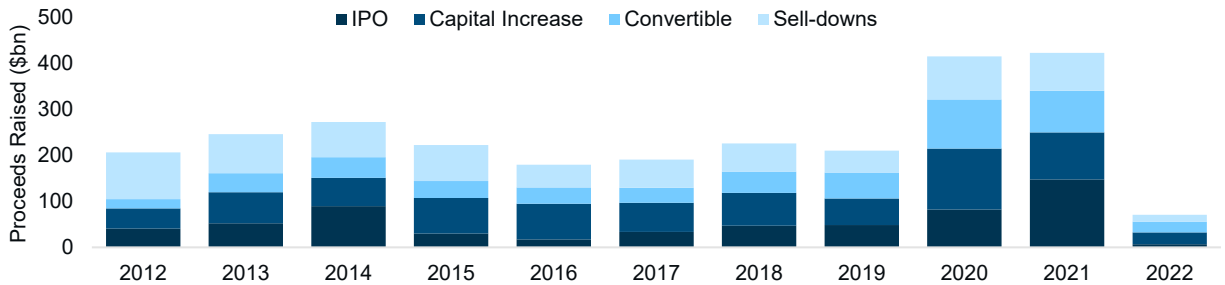


- Globally, the number of IPOs above \$50 million this year is closely tracking the 10-year average, as robust issuance in Asia, notably from China, South Korea, and India, offsets a very weak year in the US and Europe.
- Issuance is, however, down 55% by number of IPOs versus last year’s peak.

# US ECM Activity

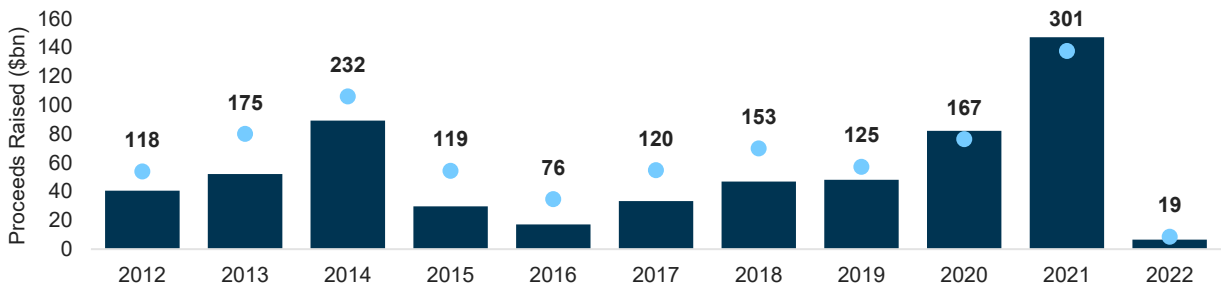
US ECM activity has fallen dramatically, not only against the elevated levels of the past two years, but also versus the average levels of the past 10 years. At about 23%, the volume of US issuance is the lowest percentage of global issuance since 1990 (when the data becomes readily available).

## Issuance by Product: 2022 YTD vs. Prior 10 Years



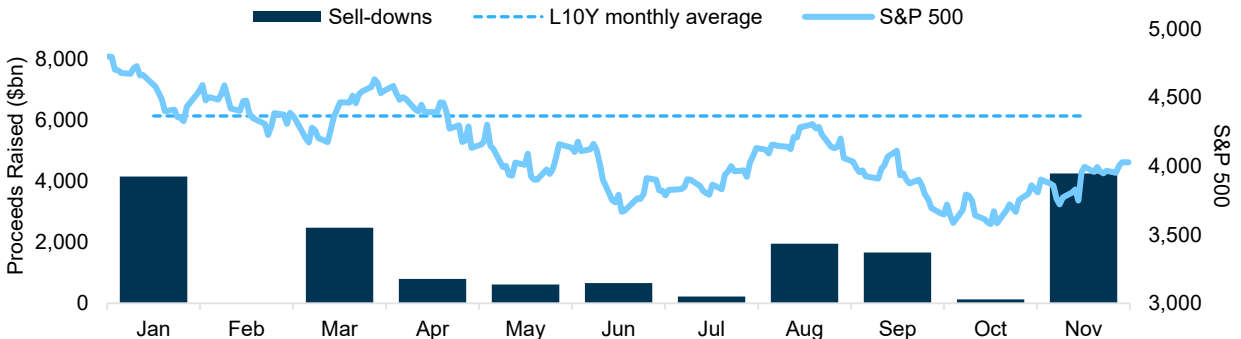
- The US has seen the biggest fall in ECM activity of any region, with issuance 73% down on the 10-year average and 84% down on the record year last year. The fall in activity is across all transaction types.

## IPO Issuance and Number of Deals vs. Prior 10 Years



- Only 19 IPOs over \$50 million priced in the first 11 months of 2022, the lowest number in 30 years, and we are not expecting December to come to the rescue.
- The 94% fall in the number of IPOs from 2021 is partly due to the number of IPOs/de-SPACs completing in 2021 (301 IPOs, 202 de-SPACs)—97 companies have listed in the US this year via a de-SPAC.

## US Sell-Downs in 2022 YTD

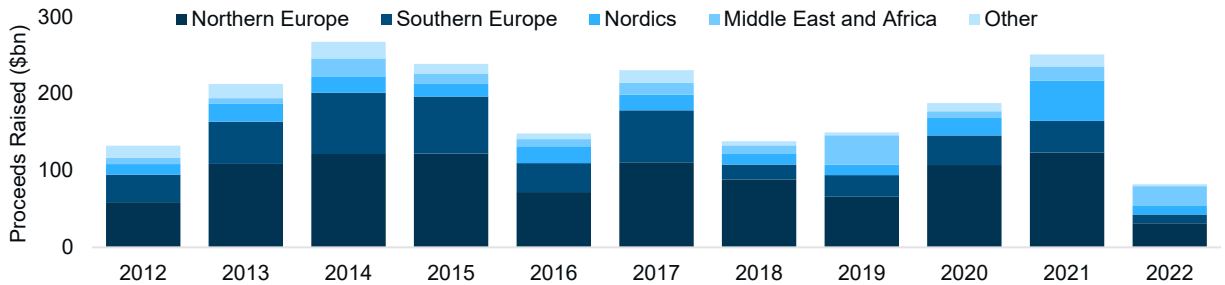


- Sell-down activity resumed in November on the back of the recent market uptick, suggesting potential vendors are starting to accept current valuations although activity remains below longer-term averages.

# EMEA ECM Activity

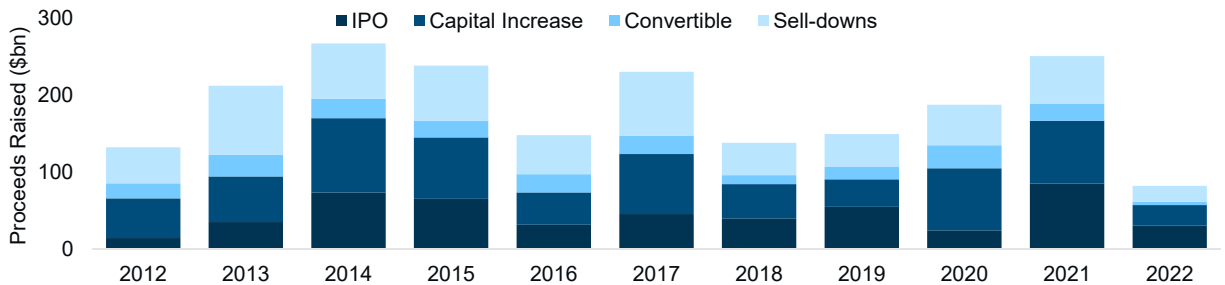
Robust issuance from the Middle East and the record-breaking Porsche IPO have not been able to save EMEA ECM issuance, which will finish the year with volumes significantly lower than in any of the past 10 years.

## Issuance by Geography: 2022 YTD vs. Prior 10 Years



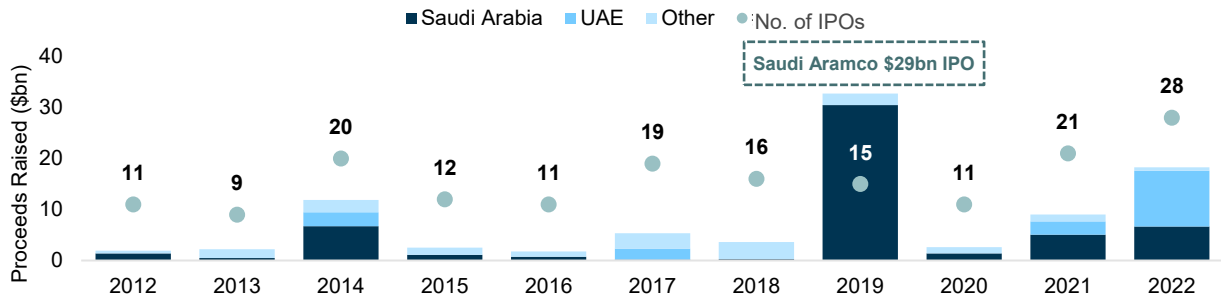
- The Middle East has been the stand-out region, accounting for almost one-third of total EMEA issuance.
- The other notable highlight in EMEA was the Porsche IPO, which raised €9.1 billion, priced at the top of the range, and has traded well subsequently.

## Issuance by Product : 2022 YTD vs. Prior 10 Years



- Issuance is well below average across all products, but convertible bonds and sell-downs are the most affected. We are hopeful that the volume of European sell-downs will pick up if recent market gains hold.

## IPO Issuance in the Middle East: 2022 YTD vs. Prior 10 Years



- The Middle East has been the place to be for EMEA ECM bankers in 2022, with a record number of IPOs completing.
- Saudi Arabia has continued to build on the success of the Aramco IPO and is leading the way in the region, with 16 IPOs completing to the end of November 2022.

# The US IPO Market in 2022 YTD

Pricing for the few IPOs that completed in the US this year has been difficult, with just over half pricing at the bottom of, or below, the range. Mobileye was the only IPO this year to price above the range, although the deal size was reduced versus initial reports and the deal was well cornerstoned. The few IPOs that have completed have generally traded well.

Date	Company	Country	Sector	Deal Value USD (m)	Primary vs. Secondary	Final Pricing	1-Day Perf.	Current Perf.
06-Jan-22	Amylyx Pharma	US	Healthcare	216	100% - 0%	In Range	-5%	93%
06-Jan-22	CinCor Pharma	US	Healthcare	213	100% - 0%	In Range	0%	-12%
06-Jan-22	Vigil Neuroscience	US	Healthcare	98	100% - 0%	Below Range	-9%	-9%
12-Jan-22	TPG	US	Financials	1,100	81% - 19%	In Range	15%	14%
26-Jan-22	Credo Technology Group	US	Technology	230	93% - 7%	Bottom of Range	17%	41%
03-Feb-22	Arcellx	US	Healthcare	142	100% - 0%	Bottom of Range	12%	34%
12-Apr-22	Excelerate Energy	US	Energy	442	100% - 0%	Top of Range	12%	18%
28-Apr-22	HilleVax	US	Healthcare	230	100% - 0%	In Range	12%	12%
05-May-22	Bausch + Lomb	US	Healthcare	712	0% - 100%	Below Range	11%	-19%
05-May-22	PepGen	US	Healthcare	123	100% - 0%	Below Range	7%	22%
12-May-22	ProFrac Services	US	Energy	328	100% - 0%	Below Range	1%	28%
27-Jun-22	Ivanhoe Electric	US	Mining	169	100% - 0%	Bottom of Range	-8%	-16%
15-Jul-22	AMTD Digital	US	Technology	144	100% - 0%	In Range	108%	131%
14-Sep-22	Third Harmonic Bio	US	Biomed	213	100% - 0%	In Range	16%	11%
14-Sep-22	Corebridge Financial	US	Insurance	1680	0% - 100%	Bottom of Range	-1%	3%
19-Oct-22	Prime Medicine	US	Biomed	175	100% - 0%	In Range	-10%	3%
25-Oct-22	Mobileye Global	US	Technology	990	100% - 0%	Above Range	38%	33%
11-Nov-22	Atour Lifestyle	US	Leisure	60	100% - 0%	Below Range	17%	13%
14-Nov-22	Acrivon Therapeutics	US	Biomed	94	100% - 0%	Below Range	33%	0%
<b>Average</b>				<b>387</b>			<b>-36%</b>	<b>21%</b>
<b>Median</b>				<b>215</b>			<b>12%</b>	<b>14%</b>



# The European IPO Market in 2022 YTD

Porsche and Ithaca Energy were the only IPOs over \$50 million completed in Europe post summer. The Porsche IPO was the clear highlight of 2022 accounting for over two-thirds of total IPO proceeds in Europe. Ithaca Energy, which was the only UK Main Market IPO of the year to raise over \$10m, helped ensure that the energy sector was the most active for issuance.

Date	Company	Country	Sector	Deal Value USD (m)	Primary vs. Secondary	Final Pricing	1-Day Perf.	Current Perf.
14-Jan-22	Gram Car Carriers	Norway	Logistics	120	96% - 4%	Fixed Price	5%	204%
28-Jan-22	CoolCo	Norway	Logistics	275	100% - 0%	Fixed Price	-2%	34%
10-Feb-22	Haffner Energy SA	France	Energy	85	90%-10%	Bottom of Range	-7%	-48%
11-Feb-22	Technoprobe	Italy	Technology	811	20% - 80%	In Range	14%	27%
16-Feb-22	Vår Energi	Norway	Energy	880	0% - 100%	Bottom of Range	-1%	25%
23-Mar-22	Swedish Logistic Property	Sweden	Real Estate	79	100% - 0%	Top of Range	52%	-8%
20-May-22	Lhyfe	France	Energy	125	100% - 0%	Bottom of Range	-1%	1%
23-May-22	4C Group	Sweden	Technology	53	19% - 81%	Fixed Price	6%	10%
25-May-22	EPIC Suisse	Switzerland	Real Estate	200	100% - 0%	In Range	0%	-11%
12-Jun-22	Nova Klúbburinn	Iceland	Telecoms	66	0% - 100%	Fixed Price	-9%	-26%
13-Jun-22	Emilshus	Sweden	Real Estate	73	100% - 0%	Fixed Price	0%	-7%
17-Jun-22	Engcon	Sweden	Industrial	206	0% - 100%	Fixed Price	57%	41%
28-Jun-22	Industrie De Nora	Italy	Technology	507	42% - 58%	Bottom of Range	-4%	16%
21-Jul-22	Opdenenergy Holding	Spain	Energy	209	98% - 2%	Bottom of Range	0%	-18%
29-Sep-22	Porsche	Germany	Automotive	8,736	100% - 0%	Top of Range	0%	27%
09-Nov-22	Ithaca Energy	UK	Energy	301	100% - 0%	Bottom of Range	-8%	-26%
<b>Average</b>				<b>753</b>			<b>6%</b>	<b>15%</b>
<b>Median</b>				<b>200</b>			<b>0%</b>	<b>5%</b>

# The Middle Eastern IPO Market in 2022 YTD

The Middle East has dominated issuance in EMEA, both by number of deals and by funds raised and top of the range pricing has been the norm. With economic structural growth drivers, increased oil wealth, and a coming of age for these markets, issuance from the region looks set to continue into 2023 and beyond.

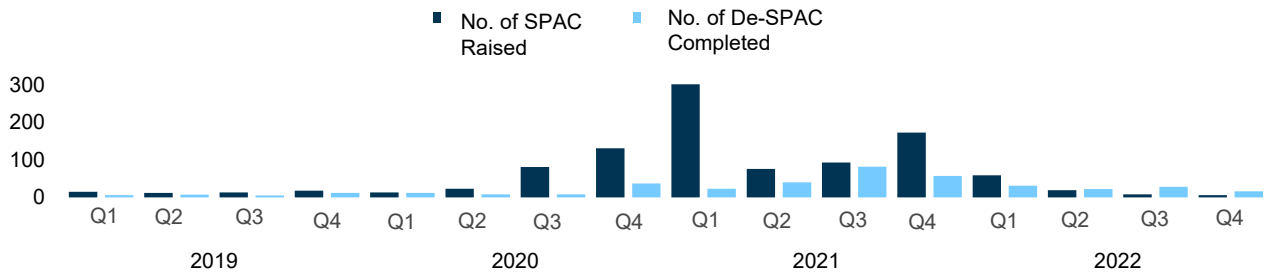
Date	Company	Country	Sector	Deal Value USD (m)	Primary vs. Secondary	Final Pricing	1-Day Perf.	Current Perf.
23-Jan-22	East Pipes Int.	Saudi Arabia	Materials	134	0% - 100%	Top of Range	6%	-6%
30-Jan-22	Elm	Saudi Arabia	Technology	819	0% - 100%	Top of Range	30%	165%
30-Jan-22	Scientific & Medical Equipment House	Saudi Arabia	Healthcare	83	0% - 100%	Top of Range	30%	17%
03-Feb-22	Macro Group Pharmaceutical	Egypt	Healthcare	82	0% - 100%	Bottom of Range	-7%	-22%
10-Feb-22	ImageSat International	Israel	Telecoms	100	67% - 33%	Bottom of Range	4%	-12%
23-Feb-22	Al-Dawaa Medical Services	Saudi Arabia	Healthcare	496	0% - 100%	Top of Range	8%	5%
23-Feb-22	Arabian Int. Healthcare	Saudi Arabia	Healthcare	109	0% - 100%	Top of Range	-4%	-43%
07-Mar-22	Al Masane Al Kobra Mining	Saudi Arabia	Mining	333	49% - 51%	Top of Range	30%	41%
10-Mar-22	Nahdi Medical	Saudi Arabia	Healthcare	1,362	0% - 100%	Top of Range	15%	48%
22-Mar-22	Saudi Home Loans	Saudi Arabia	Financials	160	0% - 100%	Top of Range	30%	2%
06-Apr-22	DEWA	UAE	Energy	6,077	0% - 100%	Top of Range	16%	4%
31-May-22	Borouge	UAE	Chemicals	2,005	0% - 100%	Fixed Price	22%	25%
03-Jun-22	Banco Angolano de Investimentos	Angola	Financials	94	0% - 100%	Top of Range	n.a.	n.a.
05-Jun-22	Retal Urban Development	Saudi Arabia	Real Estate	384	0% - 100%	Top of Range	1%	4%
06-Jun-22	Ali Alghanim and Sons Automotive	Kuwait	Automotive	323	0% - 100%	Fixed Price	11%	8%
27-Jun-22	TECOM Group	UAE	Real Estate	454	0% - 100%	Top of Range	-9%	-9%
03-Jul-22	Alamar Foods	Saudi Arabia	Consumer	326	0% - 100%	Top of Range	6%	6%
26-Jul-22	Naqi Water	Saudi Arabia	Consumer	110	0% - 100%	Top of Range	26%	21%
22-Sep-22	Salik	UAE	Transport	1,017	100% - 0%	Fixed Price	11%	14%
05-Oct-22	Burjeel Holdings	UAE	Healthcare	300	36% - 64%	Bottom of Range	16%	16%
11-Oct-22	Arabian Drilling	Saudi Arabia	Oil & Gas	712	34% - 66%	Top of Range	23%	16%
25-Oct-22	Marafiq	Saudi Arabia	Energy	897	0% - 100%	Top of Range	3%	4%
27-Oct-22	2P	Saudi Arabia	Technology	222	0% - 100%	Top of Range	2%	-11%
27-Oct-22	Bayanat AI	UAE	Technology	171	100% - 0%	Fixed Price	273%	414%
09-Nov-22	Empower	UAE	Energy	724	0% - 100%	Top of Range	2%	1%
13-Nov-22	Riyadh Cables Group	Saudi Arabia	Technology	378	0% - 100%	Top of Range	n.a.	n.a.
18-Nov-22	Taaleem Holdings	UAE	Business Services	204	100% - 0%	Top of Range	-13%	-15%
24-Nov-22	Americana Restaurants	Saudi Arabia	Leisure	1,803	0% - 100%	Top of Range	n.a.	n.a.
<b>Average</b>				<b>710</b>			<b>21%</b>	<b>20%</b>
<b>Median</b>				<b>330</b>			<b>11%</b>	<b>1%</b>

Sources: Dealogic, 2022 MEA IPOs above \$50 million as of 30/11/22, excluding SPACs, REITs, and closed-end funds.

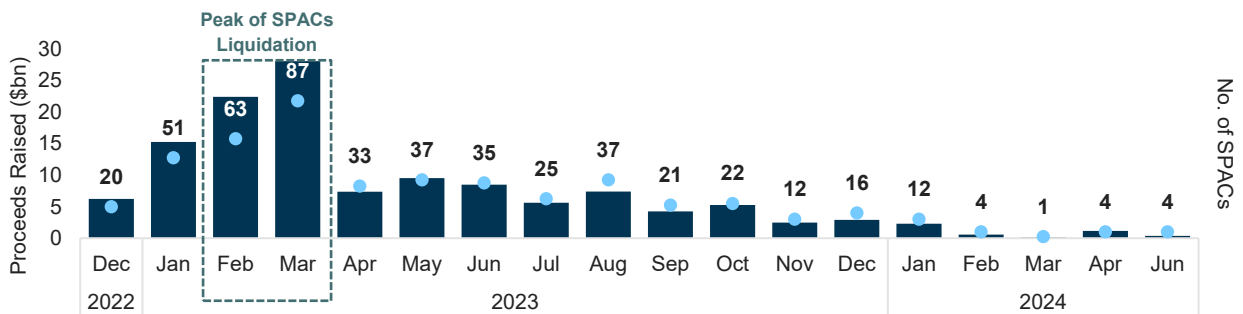
# US SPAC and De-SPAC Activity

SPAC IPO issuance has ground to a near halt, however, there remain more than 500 SPACs looking for assets. Whilst a de-SPAC still offers an alternative route to market, high redemption rates and the poor post-de-SPAC price performance of many recent de-SPACs is making listing via a SPAC less attractive. The wave of SPACs liquidating in early 2023 could be a positive for equity markets as capital is returned.

## SPAC and de-SPAC Transactions by Number of Deals



## US SPACs Expiring in the Next Two Years



## Completed US De-SPACs in H2 2022 to Date

M&A Target Name	M&A Completed	SPAC	SPAC Value (US\$m)	Target Nationality	Sector	M&A Value (US\$m)	Redemption Rate	Current Perf.
ProKidney	12-Jul-22	Social Capital Suvretta III	250	US	Biomed	1,799	91%	-2%
Mondee	15-Jul-22	ITHAX AC	242	US	Technology	851	99%	-23%
Opal Fuels	21-Jul-22	ArcLight Clean AC II	311	US	Utilities	1,297	n.d.	21%
Getty Images	22-Jul-22	CC Neuberger Principal II	828	US	Prof. Services	2,868	99%	-32%
Obagi	27-Jul-22	Waldencast AC	345	US	Cons. Discr.	620	87%	3%
Semantix Tecnologia	03-Aug-22	Alpha Capital AC	230	Brazil	Technology	456	85%	-89%
D-Wave Systems	05-Aug-22	DPCM Capital Inc	300	Canada	Technology	1,200	97%	-73%
Rubicon Technologies	15-Aug-22	Founder SPAC	316	US	Technology	1,455	n.d.	-78%
Akili Interactive Labs	19-Aug-22	Social Capital Suvretta I	250	US	Technology	908	99%	-85%
Branded Online (Nogin)	29-Aug-22	Software AG III	228	US	Technology	535	n.d.	-91%
Westrock Coffee	29-Aug-22	Riverview AC	250	US	Food & Bev.	716	74%	12%
Amprius	14-Sep-22	Kensington Capital AC IV	230	US	Technology	729	n.d.	3%
FOXO Technologies	16-Sep-22	Delwinds Insurance AC	201	US	Technology	268	99%	-94%
Rumble	16-Sep-22	CF AC VI	300	Canada	Technology	3,636	0.1%	-18%
LiveWire EV	27-Sep-22	AEA-Bridges Impact Corp	400	US	Automotive	1,512	n.d.	-26%
Tim Hortons Catering	28-Sep-22	Silver Crest AC	345	China	Leisure	1,259	99%	-55%
Granite Ridge Resources	24-Oct-22	Executive Network PC	414	US	Oil and Gas	1,230	95%	-3%
Selina	27-Oct-22	BOA AC	230	Panama	Cons. Discr.	777	n.d.	-64%
SatixFy Communications	27-Oct-22	Endurance AC	200	Israel	Telecoms	365	n.d.	131%
Perfect Corp	28-Oct-22	Provident AC	230	Taiwan	Technology	1,111	n.d.	-13%
OmniAb	01-Nov-22	Avista Public AC II	230	US	Biomed	1,000	99%	-48%
Grindr	18-Nov-22	Tiga AC	276	US	Technology	2,090	98%	-39%
Tempo Automation	23-Nov-22	ACE Convergence AC	230	US	Technology	905	n.d.	-61%

# Disclaimer

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