Marktumfeld und aktuelle Trends für Aktientransaktionen

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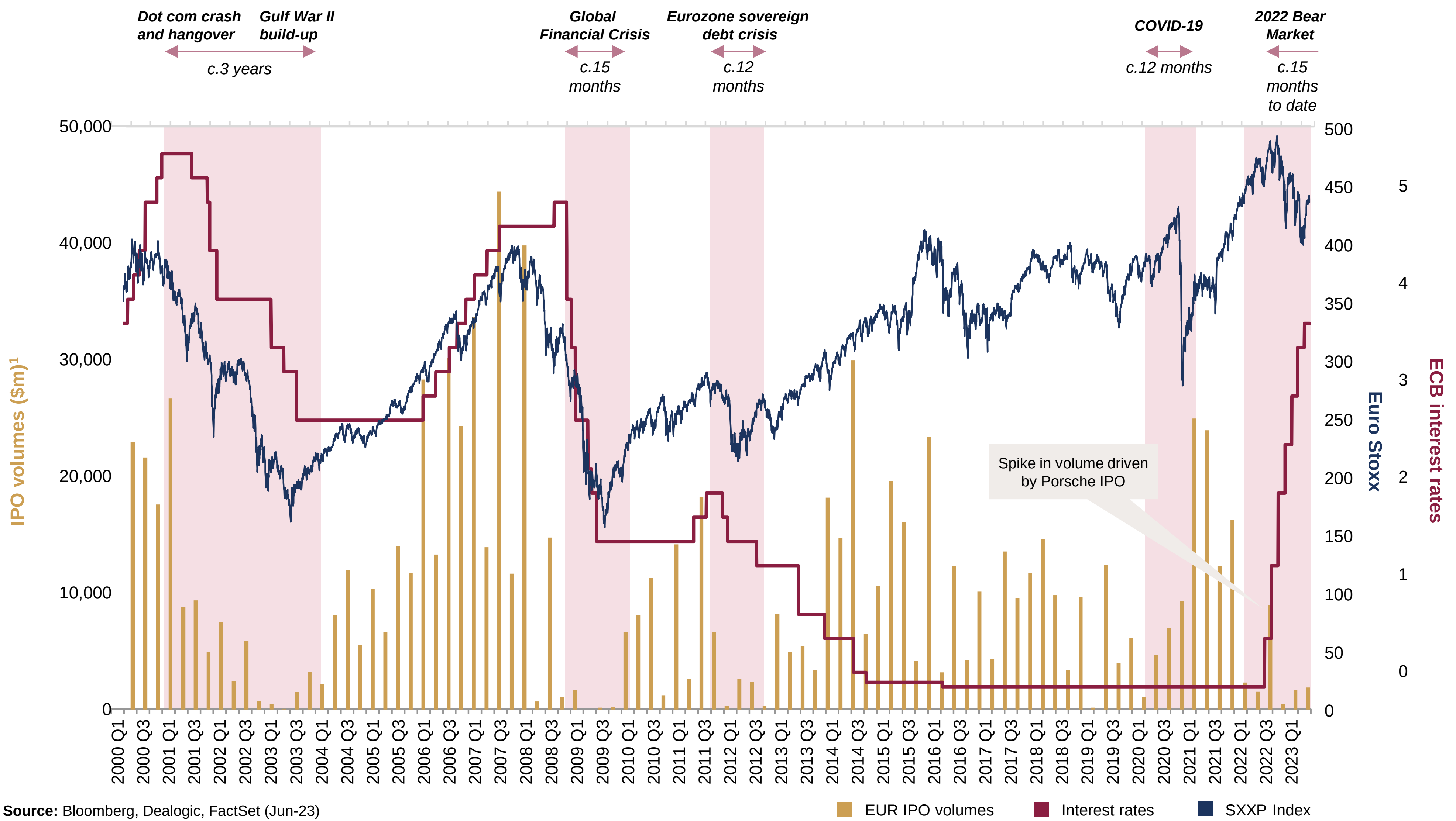
June 22, 2023

Rothschild & Co

Pro-longed period of inactive IPO markets

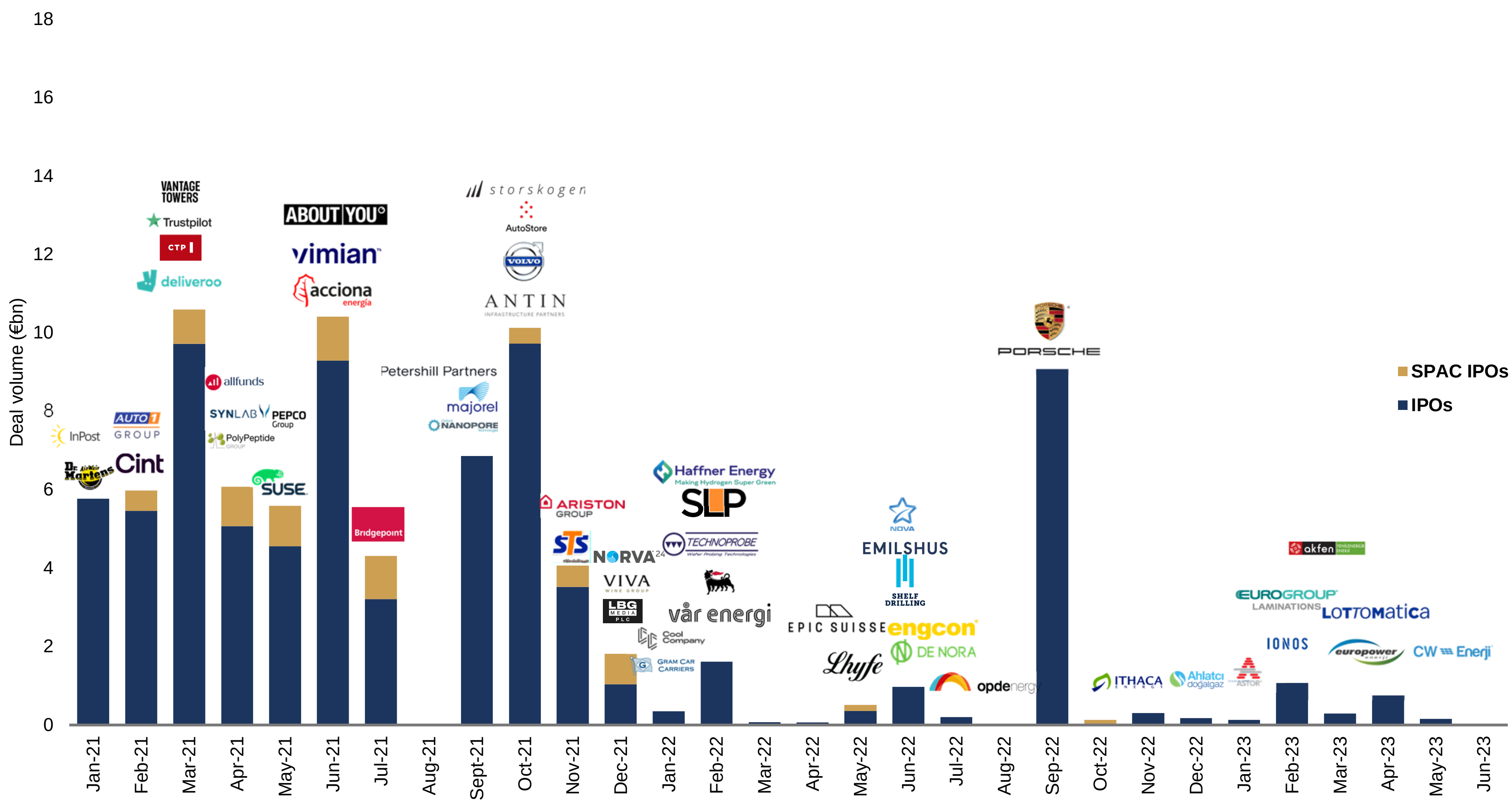
IPO market largely closed in Europe for last 15 months



Source: Bloomberg, Dealogic, FactSet (Jun-23)
Note:
1. Deals >$50m. Excludes closed-end funds, REITs, and SPACs. Excludes over-allotment

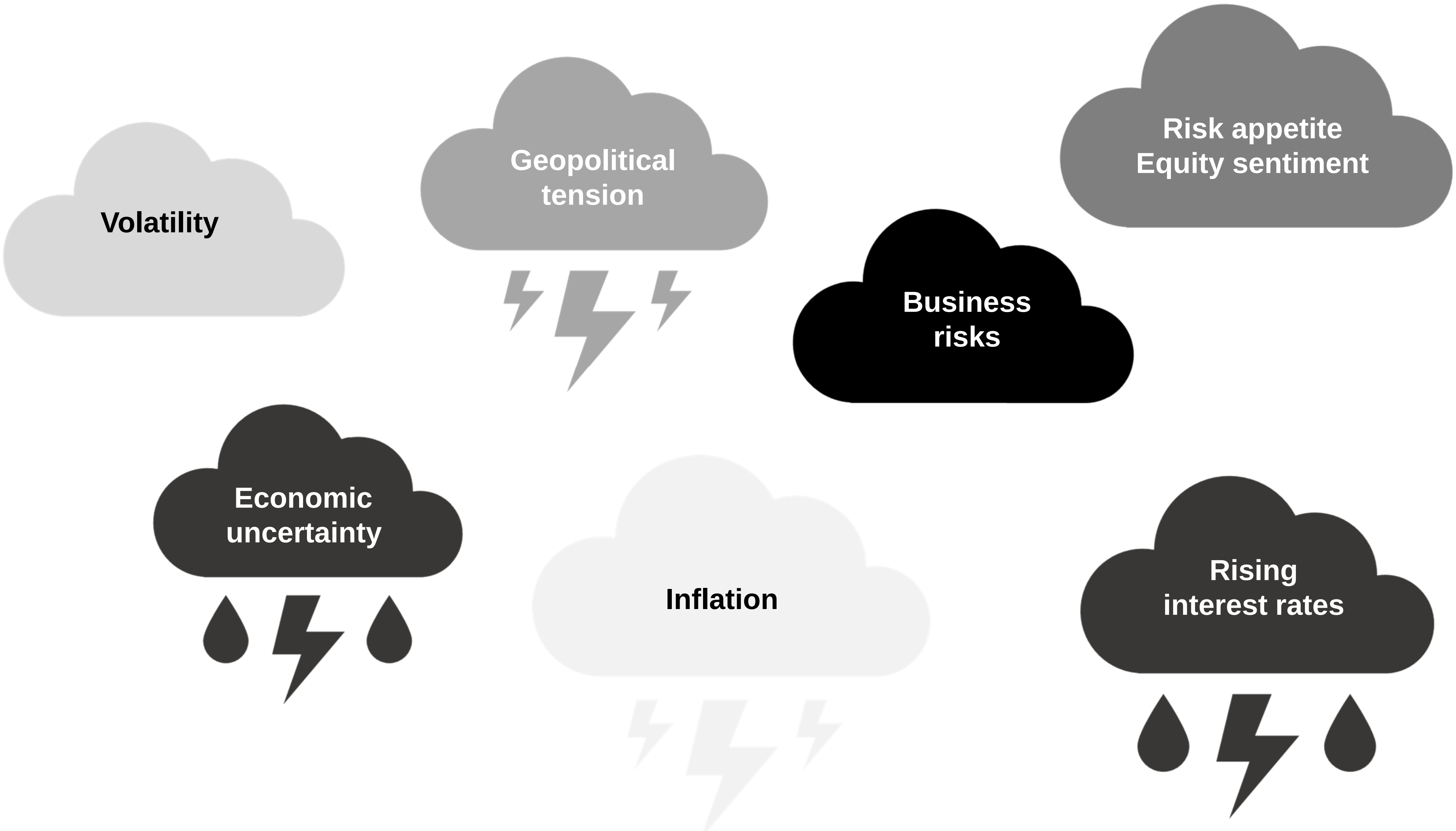
Zoom-in: European IPO activity since 2021

- 22 European IPOs came to market in 2022, significantly down on the annual average since 2000 of 87[1]
- A handful of IPOs have priced in 2023, though limited issuance expected until H2 at the earliest



Source Bloomberg, FactSet, Dealogic
Notes: 1. Deal Value >€50m excluding REITs, Funds and SPACs

Potential reasons for limited IPO activity

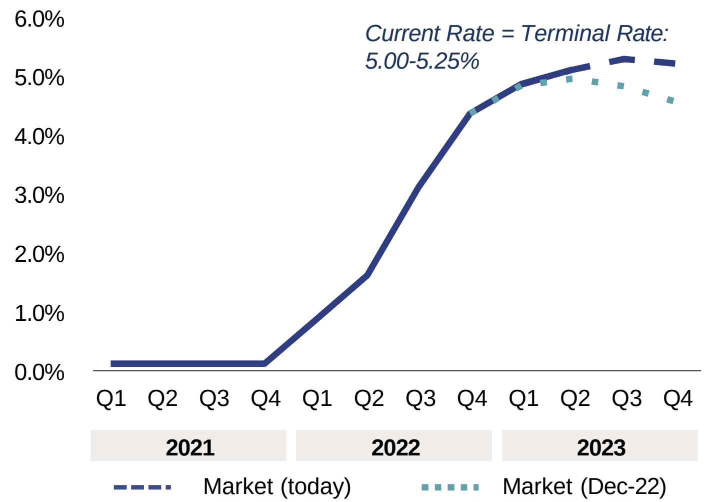


Higher for longer… but interest rate peak in sight?

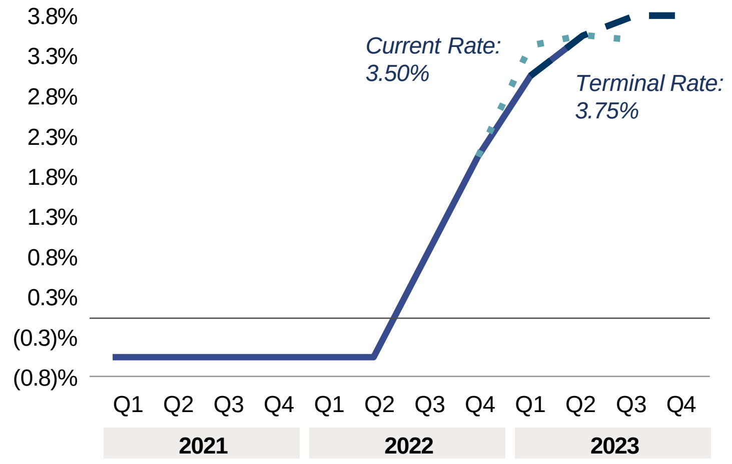
Prolonged period of rate hikes on the back of peak inflation

Monetary policy[1]

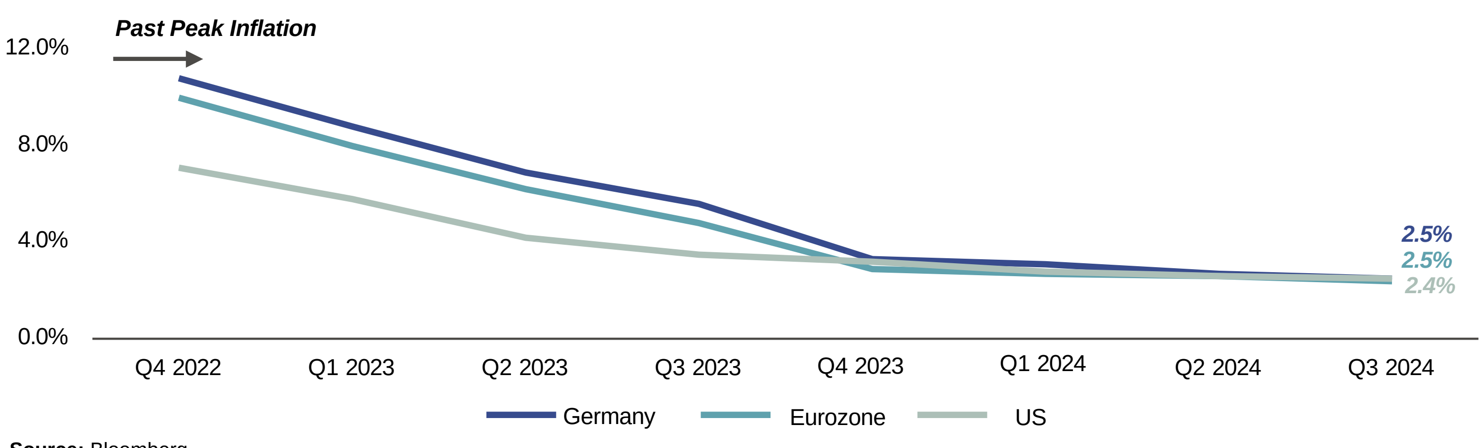
US Fed



ECB



CPI inflation projections (YoY)



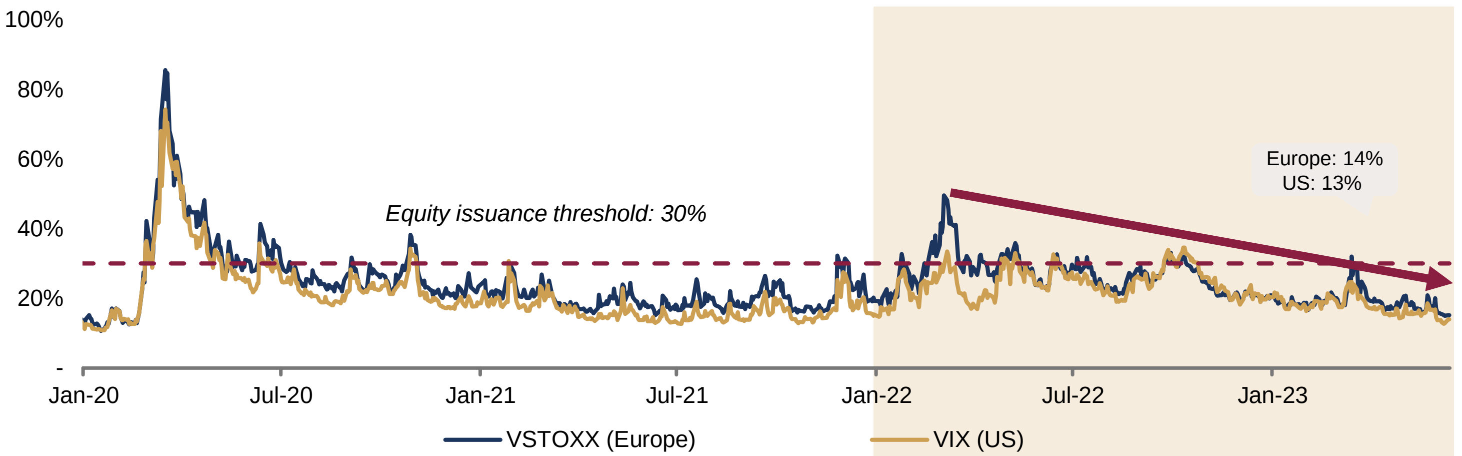
- No need for Central Banks to chip away at rates while inflation remains far above target and economic data remains robust
- Central banks may probably need to deal with economic slowdown on the one hand and sticky inflation on the other going forward
- Comeback of the "concept of yield" creates competition for capital allocation (TINA idea ("there is no alternative") for equity vs. debt does not hold anymore)

Source: Bloomberg
Note:
1. As of 15-Jun-2023

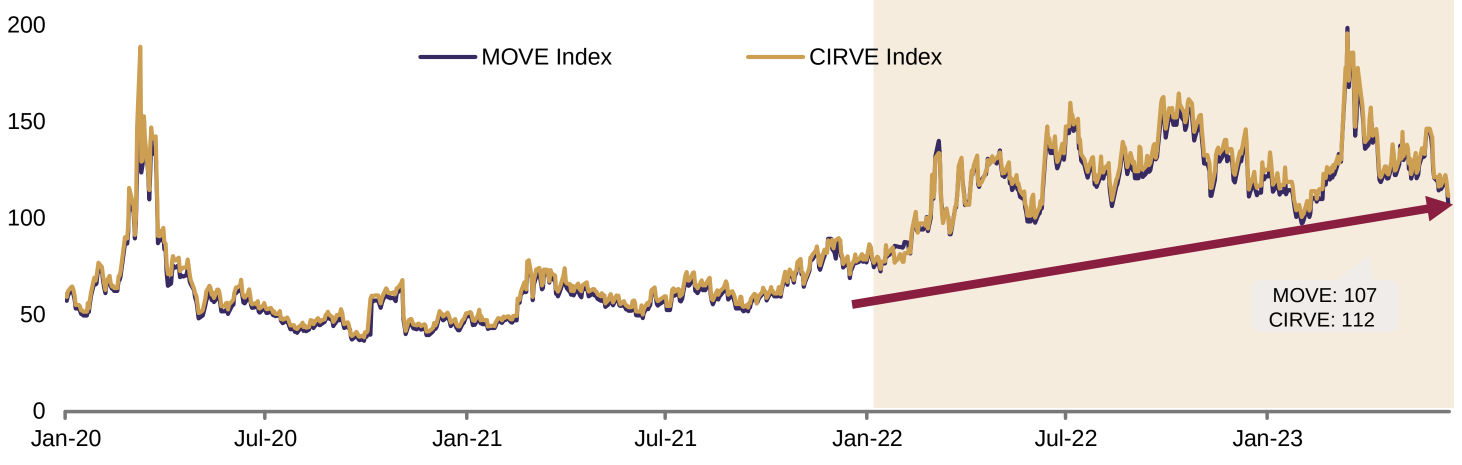
Share price volatility at (historical) lows, but rates go wild

Low share price volatility nowadays does not necessarily imply market conviction – with volatile interest rates adequate pricing of risk becomes a challenge

Equity market volatility



Interest rate volatility

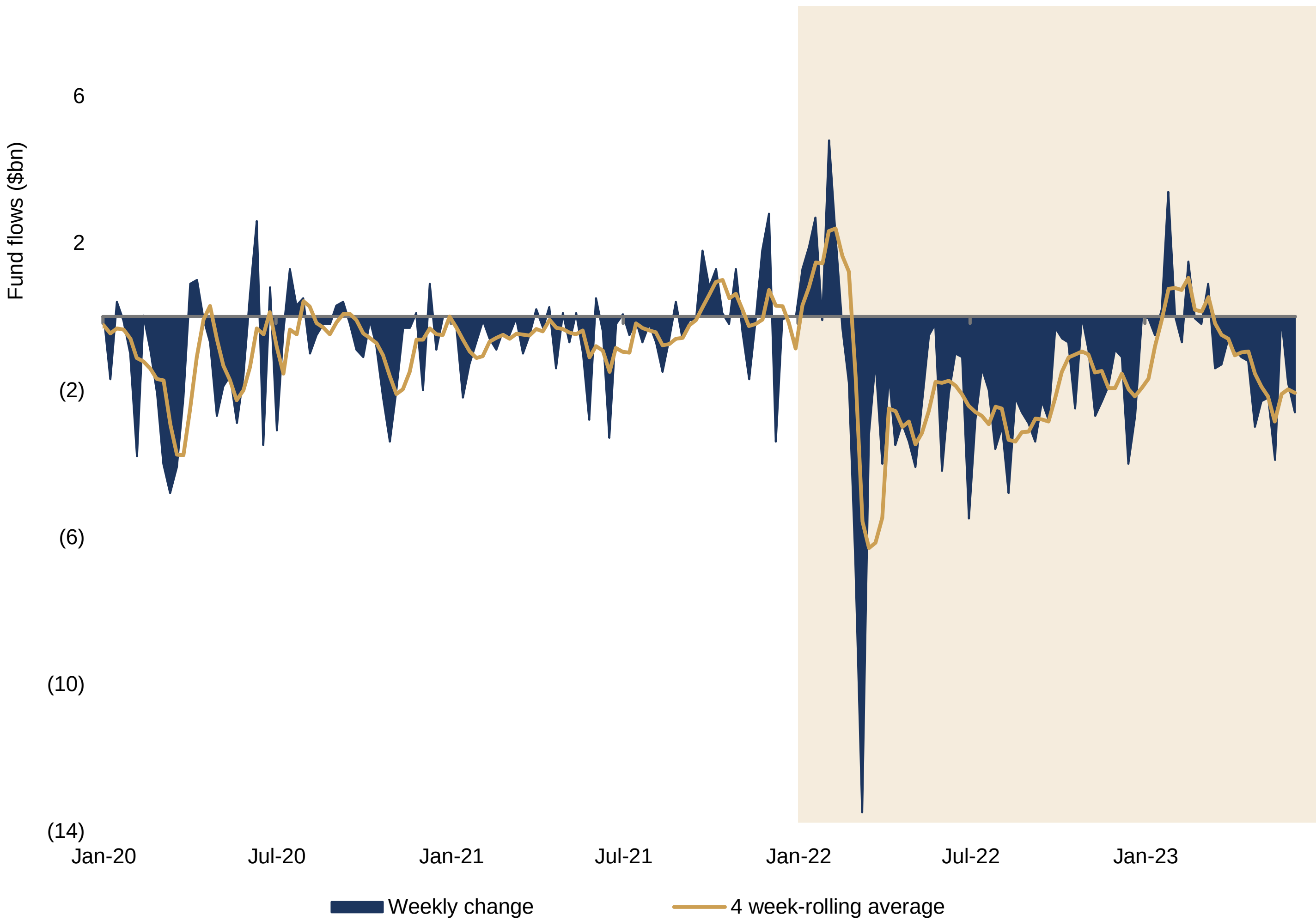


- Share price volatility: Normally less than 25% in Europe and ideally US as threshold for IPO markets to open
- Interest rate volatility: equity valuations more difficult – less of a topic for IPO markets in the past when interest rate levels were common sense
- Market consensus on interest rates stabilizing on the back of inflation normalization and central banks slowing down hiking

Source: Bloomberg, Dealogic, FactSet (Jun-23)
Note:
1. Deals >$20m. Excludes closed-end funds, REITs, and SPACs. Excludes over-allotment

Long period of equity outflows since January 2022

Equity flows ($bn)



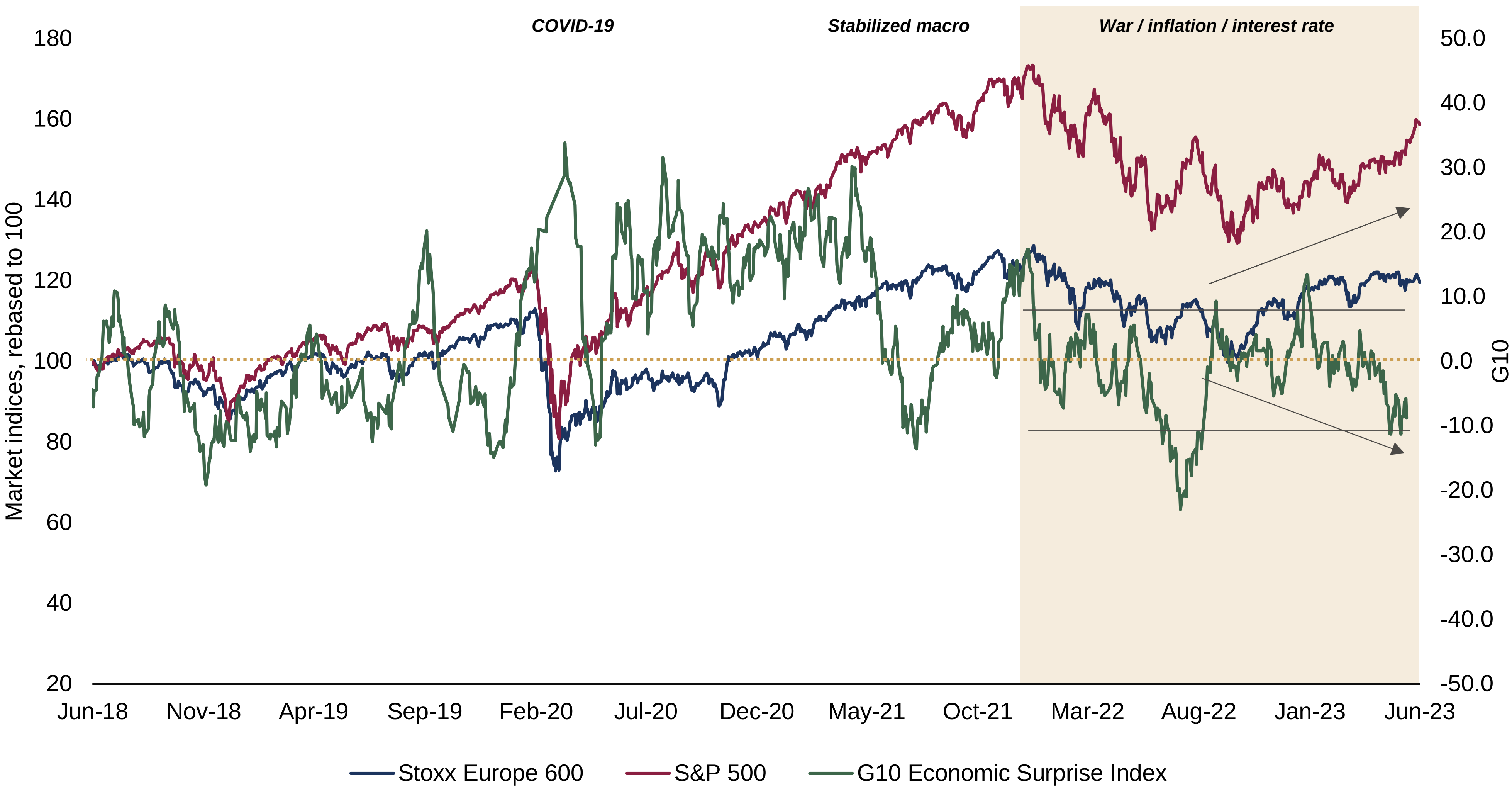
Source: BofA

- Historically we have seen a positive correlation of equity inflows and IPO volumes
- Stable / positive (2023 showed early signs of stability with inflows in 2023 YTD following 49 consecutive weeks of outflows, but outflows have returned)
- Allocations out of Cash into Equities (investor cash at highest levels since 2001)

Decreased economic surprise index as a risk factor

Equities trying to ignore G10 economic surprise index oscillating around zero-line and falling into negative territory

G10 economic surprise index vs. STOXX and S&P500

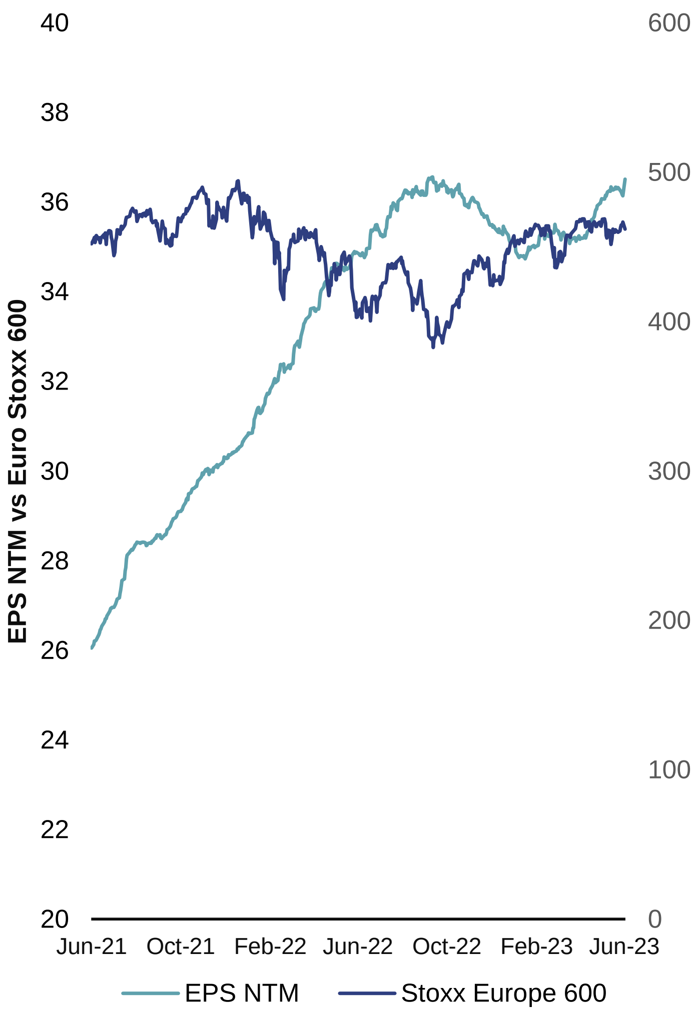


Source: Bloomberg (Jun-23)

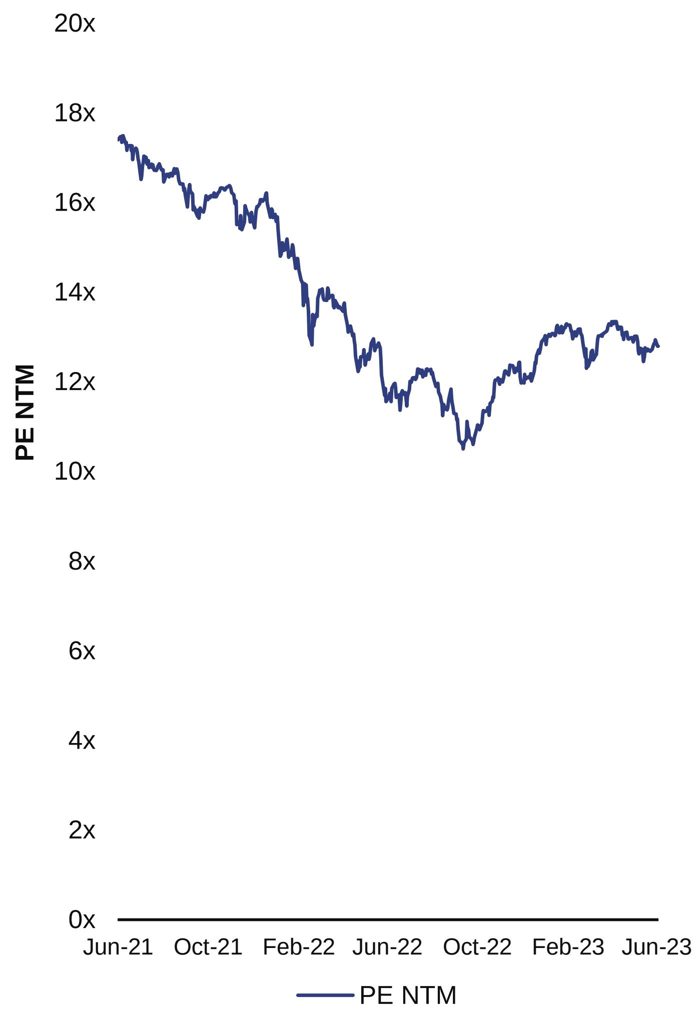
Stable earnings backdrop with solid Q1 reporting

Stable earnings backdrop has underpinned the rebound of European equity markets from Q3 2022 lows

EPS NTM vs EuroStoxx 600



PE NTM



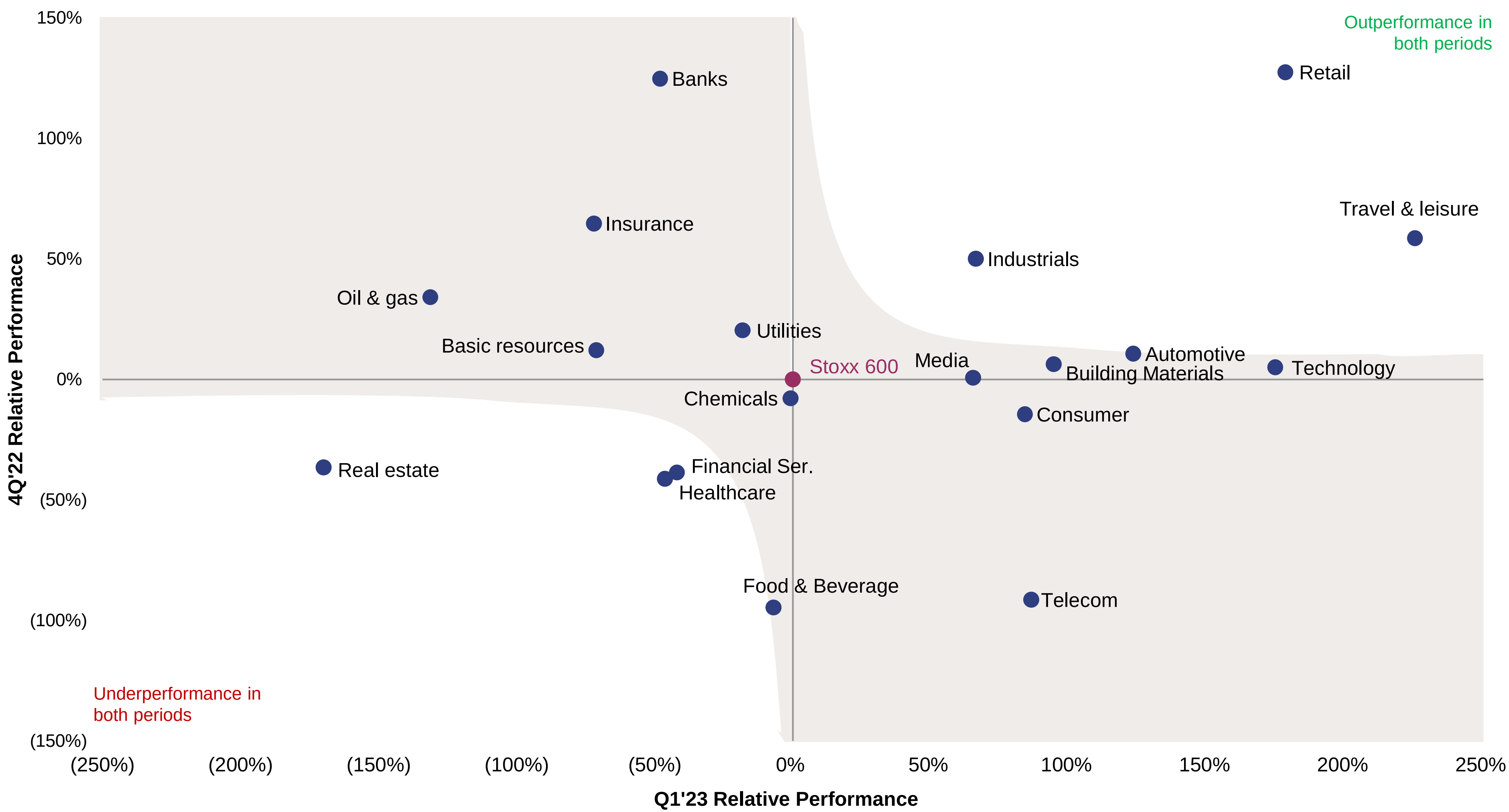
- Positive EPS momentum (after a period of downgrades)
- Valuation levels not yet fully recovered
- Investors looking for “big picture” beyond the earnings season

Source: FactSet as of 19-Jun-23

Sector rotations

Difficult market environment for fund managers to generate (out)performance

Relative Performance : 4Q'22 vs 2023 YTD



Source: FactSet as of 09-Jun-23

Summary – what needs to happen for IPO markets to open?

Market potentially to open by H2 2023 on the back of more stable positive economic outlook for 2024

Metric	Potential trigger	Current status
Share price volatility	▪ Volatility: low 20s ▪ Calmer geo-political backdrop ▪ No clear direction	▪ Relatively low volatility levels in Europe and the US of 14% and 13% **<20%** … **>30%**
Interest rate volatility	▪ Volatility: ~110 ▪ Market consensus on interest rates/inflation	▪ Relatively high interest rate volatility **<80** … **>100**
Equity fund flows	▪ Stable / positive ▪ Allocations out of cash into equities	▪ European fund flows had shown consistent outflows in 2022 – investors sitting on high levels of cash ▪ Investor cash sits at 4.1%, down from recent highs (>6.0%) **Inflows** … **Outflows**
Earnings forecasts during FY23	▪ Positive EPS momentum (after a material downgrade) ▪ Investor confidence in earnings will reset multiples	▪ Downgrade from market peak in GFC and COVID crisis was -25%, while in 2022 no revision did happen ▪ Current NTM EPS appreciation by ~5%[1] due to strong earnings, lowest since 2018 **Normalised EPS** … **Inflated EPS**
IPO – more successful first movers	▪ “Early mover” IPOs show investor engagement and successful aftermarkets	▪ Limited deal flow in Europe and the US in 2022/23, pipeline shows signs of reset ▪ IONOS and Euro Group IPOed in Q1, limited traction in aftermarket ▪ 3 IPOs launched, with WeSoda cancelled, Nucera and Hidroelectrica in marketing **Successful IPOs** … **No IPO Precedents**

Which ingredients are needed to re-open the IPO markets

Key takeaways from recent IPOs and potential red flags for potential ice breakers

Key success factors

- **Large and growing TAM** and with **high barriers to entry or solid mega-trends** (digitisation, energy transition)
- **Strong growth track-record** and with credible growth drivers and guidance in the next 2-3 years post IPO
- **Ability to demonstrate resilience through-the-cycles** - with recurring revenues, scale and capacity to mitigate inflation risk and wage costs
- **Sustainable profitability / free cash flow generation** in a new macro-economic context
- **Clear benchmark / easily identifiable universe of comparables** investors can work on
- **Strong management / founder** vision
- **Solid financial structure**, limited leverage / strong deleveraging profile, fully financed for next 2 years

Key failure factors

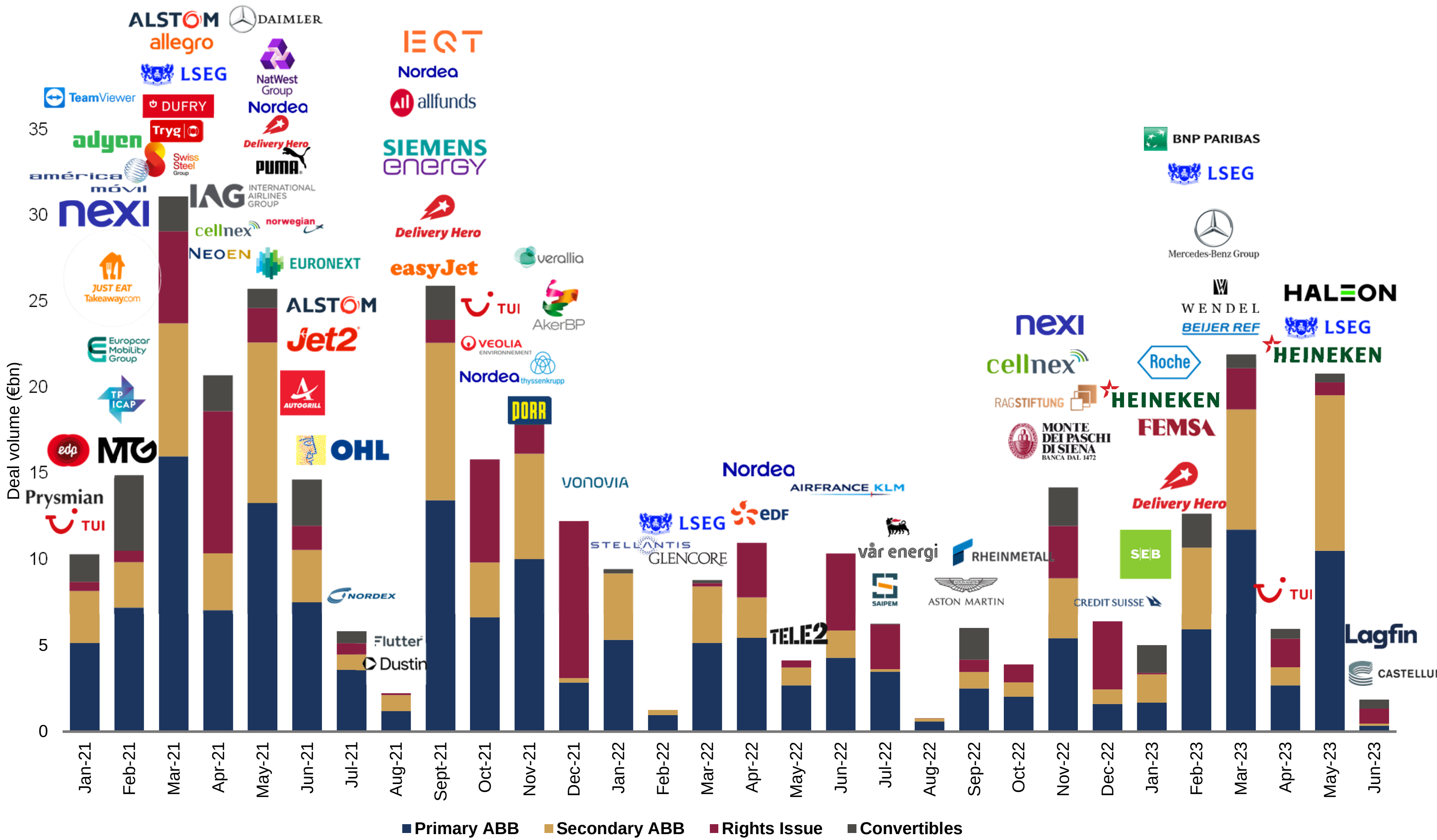
- **Limited growth track-record** or no resilient business model
- **Complex business model**
- **Inflation / energy costs** eroding margins
- **Lack of listed comparables** to help investors and analysts evaluate the TAM, the business fundamentals
- **Highly competitive environment / no barriers to entry**
- **Red flags ESG**: no disclosure, no targets
- **IPO size and pricing disconnected** with investors' appetite

Lessons learnt, current trends and outlook

Post-Covid	Today	Outlook
Virtual preparation and execution ▪ Virtual IPO format has intensified deal congestion and the speed at which IPO market sentiment changes	**More mature hybrid approach** ▪ Advantages of virtual IPO format still prevail; however, investors, management and advisers are getting back together in physical meetings	**Will likely remain**
Broader dialogue ahead of ITF via virtual early-look/pilot fishing process ▪ Given the digital format, the dialogue ahead of ITF in terms of accounts met increased	**Mix of virtual and physical sessions to retain extended reach** ▪ Good portion of investor meetings are still being held on virtual basis for sake of efficiency and broader reach	**Will likely remain**
Pre-placement via cornerstone and/or anchor orders to de-risk the IPO ▪ Increasing number of IPOs de-risked by securing demand from cornerstone and/or anchor investors	**Current market environment makes pricing of cornerstone investment challenging** ▪ Appetite to commit cornerstone demand is limited on the back of pricing uncertainty	**Increasing demand tension likely to generate more appetite for upfront cornerstone commitments**
Shortened investor education on virtual basis ▪ Intensified investor dialogue after ITF and pre-price setting given shortened investor education and increased number of investors met virtually	**Rather back to 2+2 marketing** ▪ Beyond traditional IPO investors, dialogue with specialist investors increases	**Subject to broader market environment (shortened marketing periods in windows with vola risk)**
Shortened book building period on virtual basis ▪ Dynamic order taking and investor behaviour in compressed timetable requiring fast decision making	**Rather back to traditional bookbuilding** ▪ More and more data points become available to better manage the upcoming price discussions	
Pricing usually via final price guidance ahead of closing the order book ▪ Thorough design of decision-making process and real time education about order taking	**Investors got used to final price guidance - practice remains unchanged** ▪ Lack of communication likely to trigger questionmarks on deal momentum	**Will likely remain**
Size is key ▪ Investors were looking for sizable transactions to apply large tickets	**Size remains key for re-opening of IPO markets** ▪ Investors still focus on sizable transactions to apply large tickets	**Aftermarket liquidity will remain a key investor concern**

Good news at the end – secondary markets are already vital

Stronger secondary markets with issuance and placements being executed subject to quality and size



Source Bloomberg, FactSet, Dealogic
Notes: 1. Deal Value >€50m excluding REITs, Funds and SPACs
2. EUR ECMs >€50m since April 2022, excluding REITs, Funds and SPACs

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