Allison Nathan: Signs of life in the global IPO market are spurring investor optimism that more companies will decide to go public. But after nearly two years of stagnant activity, is the recent spate of deals a flash in the pan or indicative of a longer-term revival?

David Ludwig: I would say we're having a soft opening of the IPO market. We never really expected the market to be fast opening over the end of '23. That's more likely to happen in 2024. We're in a good spot to see the markets continue to open a little bit more broadly as we move through the next couple months and quarters.

Allison Nathan: I'm Allison Nathan and this is Goldman Sachs Exchanges.
To help break down the dynamics in the IPO market as well as company and investor sentiment, I'm sitting down with David Ludwig, Goldman Sachs's Global Head of Equity Capital Markets. David, welcome back to the program.

**David Ludwig:** Allison, it's great to be here.

**Allison Nathan:** So, David, a few high-profile technology companies have gone public in recent weeks. So, the big question is, is the IPO market finally back?

**David Ludwig:** I would say we're having a soft opening of the IPO market. I think it's clear from the last handful of transactions that high quality companies have very efficient access to the capital markets. We're seeing better valuations. Part of that's the overall market. We're seeing high quality shareholders come into these transactions and support companies in the after market. I think that's very powerful to me as I look at it.

We never really expected the market to be fast opening over the end of '23. That's more likely to happen in 2024. But
overall, I'm actually very positive about how these first handful of IPOs went, especially in a market that's become more volatile over the last handful of weeks. When you look at the performance of the NASDAQ since Labor Day or the S & P since Labor Day, both down 3 to 5 percent, which naturally makes investors a little bit more patient.

But for us to be able to price these days where they are pricing above their ranges, for them to be trading, you know, around issue price, if not better, I think that kind of tells us we're in a good spot to see the markets continue to open a little bit more broadly as we move through the next couple months and quarters.

Allison Nathan: And so, how would you characterize investor confidence at this point?

David Ludwig: So, I think investor confidence has definitely been improving over the course of the year. Investors were probably improperly positioned for a recession at the beginning of this year. I think as you got more confident in a soft landing, which has been what Goldman Sachs called for some period of time, you saw significantly more risk getting added to their portfolios,
especially in and around some of the growth sectors. I think that's been very positive for the IPO business given a large portion of the IPOs happen to be in sectors that need capital or growth.

What's happened over the course of the last few weeks is that there may have been over positioning. And as you kind of see inflation running hot, concerns about where rates are going, what the Fed is going to do, some of that risk is then pulled back off. But we still have been able to get these IPOs done because there are enough investors that want to add high quality companies to their portfolios that when they see a high-quality company come into the public markets, they really want to engage.

**Allison Nathan:** And what about companies' willingness to go public in the current macro environment? You mentioned the volatility. We just had another Fed meeting where the key takeaway seemed to be higher for longer. So, what is company sentiment like right now?

**David Ludwig:** So, I think as the market continues to stabilize and volatility subsides and price [UNINTEL] on deals, whether it be private or public are beginning to
improve with better shareholders, I think a lot of companies, a lot of sellers are definitely thinking about the capital markets more urgently and more broadly right now. And I think that's constructive to us.

I think the other piece that's very constructive is that we're seeing shareholders, or potential shareholders really engaging with companies more aggressively, more actively, whether they be near term issuing candidates, or longer term candidates, they just want to start getting to know right now because I think they're all actively considering, if I'm going to be adding risk to my portfolio, what are the types of companies and assets I want to put in the portfolio right now?

So, I think those two pieces are what allows us to get to better equilibrium to see transactions occur on a more consistent basis. Now, as I think I mentioned before, we're not at the time in the market where we're going to see that broad based, widespread opening that any company you've got public under attractive terms at this point. I think that that's going to slowly happen as we move our way through the course of the year and much more wide as we move into '24. And now we need the overall markets to cooperate
with us. I think that's going to happen. I think we're watching that happen. It's not going to be linear. But I think we're very excited for the opportunity for companies to get access to private and public market capital as we move forward. And investors to be able to invest in some really great companies over the course of the next handful of quarters as well.

**Allison Nathan:** But the share prices of many companies that did go public in 2020/2021 when the IPO market was wide open, they're still trading below their debut prices. So, why is that, and is that still an overhang to sentiment?

**David Ludwig:** So, I think of people ask me this question. I personally think it's irrelevant in a way because we had a seismic shift in where the markets were. So, we're dealing with in 2021 where just there was tons of liquidity coming from the government, whether it be monetary fiscal stimulus or with negative real interest rates of negative 1 percent if not a little bit less than that. And that just leads to outsized valuation. It leads to outsized access to capital. There's really no other place to put money to work aside from equities.
And so, valuations across almost every sector, whether it be growth sectors or more mature sectors just went through the roof. And companies took advantage of that.

And so, whether they be in the private markets where companies raise significant capital, extended their runways, or public markets where companies were able to raise capital at very attractive valuations, even if that capital's not needed by the companies, just very opportunistic, it just created a whole new paradigm that we hadn't seen in some period of time.

And so, all the companies that went public, some of them have been great companies in the public markets from an execution perspective. Some of them may have been a little bit too early to be in the public markets. They took advantage of that. And then the world changed in November of 2021 when the Fed decided that they had to really fight inflation aggressively and raised interest rates.

And valuation across all sectors just went down aggressively. So, it's very hard to say because IPOs are below their issue price that things going to be a headwind for other IPOs. Because it really has to be looked at on a
relative basis versus the sectors that they're in. And to be fair, some IPOs have still underperformed their public peers in the sector from valuation. But I think that was just really the market we were in then versus kind of the IPO asset class.

Allison Nathan: Do you think it's fair to say that that environment in 2021 in particular, it's just not going to be repeated? We need to leave it in the past.

David Ludwig: I don't believe the environment that we saw in '20 and '21 is going to be repeated. I hope it's not going to be repeated from a human and social perspective given what we all went through. Now, I didn't think that we were going to have an environment that was going to better than what we saw in 1999 and 2000 from an IPO perspective. Then we had a great environment 2006/2007. And then we saw what happened 2013/2014, especially in tech, which was pretty powerful as well, at least the end of '13, beginning of '14. And then we had this environment. So, the world cycles. There's going to be a point in time where rates are getting cut. You're going to see more money going to growth. Investors are going to be willing to invest in companies that are profitable or very close to
profitability. They're going to extend. I think this is just the world we live in.

Now, do I think it's going to get to deep levels that we got to in 2021? Probably not. I'm never going to say never because things ultimately do change. But we're not playing for that or budgeting for that any time soon. But we are making sure that we're staying in front of the investing community to understand what they're looking to invest in and also making sure that our client base, from an issuing perspective, is staying nimble to the extent the markets change. And the best way for them to achieve their objectives may be in the public markets relative to the private markets.

**Allison Nathan:** So, let's talk a little bit more about private markets. During the last couple of years, private companies have increasingly turned to other alternatives to raise capital. But talk to us a little bit more about that trend.

**David Ludwig:** Absolutely. So, the first thing I'd say is I love the fact that companies have more alternatives to execute against their business plans, whether it be staying
private for longer, going public, going public in different ways. I think that's awesome because different paths are better for different companies. I also think that the expansion of private and different types of private cap, I think, has also been very good for that private alternative, and private alternative in different market environments.

Because I think as we talked about before, in '20 and '21, access to capital in the private markets was abundant to say the least. And it was coming at great valuations and very little impact on, you know, how you have to run your business and governance. And I think a lot of companies took advantage of that where they raised a lot of capital. That gave them a lot of runway. It also didn't have them operate with discipline.

Now, when the world's changed, it got very difficult to continue raising capital under those guidelines. You know, some of the companies used the different forms of private capital to help them fund their operations, give employees liquidity. And that may come in more structured securities. They [UNINTEL] whether it be debt, convertible preferred, other ways to do it. And so, I think it's good that those broader forms of capital are there.
Others said I'm not going to take capital. I'm actually going to create more discipline in my business and I'm going to extend my runway by actually becoming more lean and changing my operating profile. And I think a lot of those companies that did that are actually going to become better public companies down the road because I think they're actually just going to have better businesses as we move forward.

But what's constructive to me now, just like the overall markets have begun to trade better, we're actually beginning to see more discussions about true price rounds, which were very difficult over the course of the last 12 to 18 months when it was hard to find that equilibrium between where companies thought they were worth and what investors thought they were worth. We're now actually beginning to find that a little bit more. It's not the majority of situations that are in. There are still a lot of structured discussions that need to be happening in this market. But it's beginning to be more in the dialogue. And I think we like seeing that because it just means that that equilibrium is being found.
**Allison Nathan:** And we recently spoke with Jim Esposito. Jim, as you know, our co-head of Global Banking and Markets, about some of the challenges facing private equity partners, which includes the difficulty of monetizing portfolio companies in what we've been discussing, what has been a lackluster IPO environment. So, could we see more sponsored back IPOs?

**David Ludwig:** Absolutely. I mean, I think that IPOs always have to be a part of the toolkit for them to get liquidity for their portfolio companies. And so, I think in almost every situation when we're working with a sponsor, there's going to be a discussion about do I take this company public and monetize over time? Or do I potential think about selling the company upfront and, obviously, getting more of my proceeds in the near-term? And what's the trade-off between my MOIC, my IRR? What's the risk going forward? And they also have to think about what's best for the company, it's operations and all its employees as well. And clearly, it's been a difficult time to get liquidity, both in terms of IPOs. It's also been harder to sell companies right now too. But I think that dynamic's beginning to change as we see the IPO market open up. We've just had two relatively successful large high yield
bond offerings. Hopefully that market will be able to begin to thaw as well as we kind of move ourselves throughout the end of the year and into 2024.

And if that opens up a path for the sponsors to get liquidity in the way that's best for them and best for their companies, I think that's exciting because, as I said, we like when our clients have multiple options because I think that ultimately drives the best outcomes for them.

**Allison Nathan:** We've mostly been talking about US capital markets in this conversation, David. But what do the trends in EMEA and Asia Pacific look like?

**David Ludwig:** So, I think each of the regions are all on better trajectories. They're on different trajectories, but they're better trajectories. So, EMEA, we've been seeing selected IPOs and people are monitoring the market. And we have a good backlog in EMEA. We're all seeing selective monetization, just like we're seeing in the US. Whenever a window appears, our client base wants to try to get access to kind of either raise primary capital or get liquidity for their constituencies. But it's definitely slower than what we've seen in the US from a recovery perspective.
Asia is a little bit of a different story because you have to bifurcate. So, Japan has been really hot relative to what we've seen in the past, right? Think issuances of four times or so. In Japan, we expect more to come. And that's been across products. Asia ex-Japan has been a tad slower. And some of that's because of the macro economic situation, especially in China right now. But I think they're beginning to see some excitements, some green shoots about some of the policy measures that the Chinese government's putting in place. Not enough to see a significant amount of risk getting added by the investing community, which I think will lead to more issuance in China. But I think people are pretty happy about what they're beginning to see there.

And then India, I think, has been a market that's probably performed better than most of the other markets. And we've definitely seen the benefits of that, especially on the monetization front. A little bit less on the IPO front, but we do feel very good about some of the opportunities to come.

**Allison Nathan:** And so, we've been talking about this, again, soft opening, gradual. But how would you really characterize what you think we'll see from here into the
end of the year and 2024?

**David Ludwig:**  Never have a crystal ball on what the markets are going to do because the markets are always going to be the key driver of ECM activity and the IPO activity in particular. But we have a really large backlog across regions, across sectors, across products. I think part of the reason we have a large backlog is because we didn't take anything out of backlog for the last 12 to 18 months. But we do think that based on what we're seeing in the markets overall from a trend line perspective, as I said before, I don't think it'll be linear, there will be pockets of strength, pockets of weakness. But I think overall we're headed in the right direction. That over the rest of the year we're going to see some very high-quality companies become public. We're going to see other companies and shareholders be able to do some things in the public markets during those windows of strength. And '24 is going to be the year when we really see things broaden out across regions and across sectors for companies to have access to the public markets, and we believe they deserve.

**Allison Nathan:**  Last question, what would derail that optimism?
**David Ludwig:** So, I think the biggest focus is really on the macro economic environment. To some extent the geopolitical environment. And so, I think if the economy continues to run very hot, some folks in the US, also global, that policymakers have to continue raising rates, which obviously is not good for equities, then you're obviously going to create some concern about a delayed recession versus where we stand right how. I think that could definitely slow down issuance in the capital markets. I think investors will just pull risk out of the equity markets in general.

You know, geopolitically there are clearly a number of areas that we're focused on, whether it be Russia-Ukraine, US relations, some other areas as well. Hopefully those kind of stay stable to improving. But you know, if things are kind of on the course it feels like they're on right now, I think we feel pretty good that 24 is going to be a better year both for our issuing clients and our investing clients.

**Allison Nathan:** David, thanks so much for joining us.

**David Ludwig:** Great to be here.
QUESTION:
Thanks for listening to another episode of Goldman Sachs Exchanges, recorded on Thursday, September 21st, 2023.

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