



Edelman
Special Report

June 2021

GOING PUBLIC:

**Evolving Investor Expectations
For New Issuers**

EDELMAN SPECIAL REPORT

Going Public: Evolving Investor Expectations for New Issuers

METHODOLOGY

For this report, Edelman surveyed 100 U.S. institutional investors to uncover their perceptions on the IPO and SPAC market as well as examine the factors that influence their willingness to invest.



10-minute survey

N=100 U.S. Institutional Investors

Institutional Investors are defined as those who are employed full time in finance, currently work for an institution that pools money to purchase investments, and directly contribute to the decisions made regarding an institution's investable assets.

In this report, investors have also researched, invested, or otherwise participated in an activity related to IPOs, SPACs, and newly public companies within the past 2 years.

The margin of error for survey results
95% Confidence Level: $\pm 9.8\%$

Fielded from
May 3rd to May 14th, 2021

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SPAC Market **05**

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U.S. INSTITUTIONAL INVESTOR PROFILE

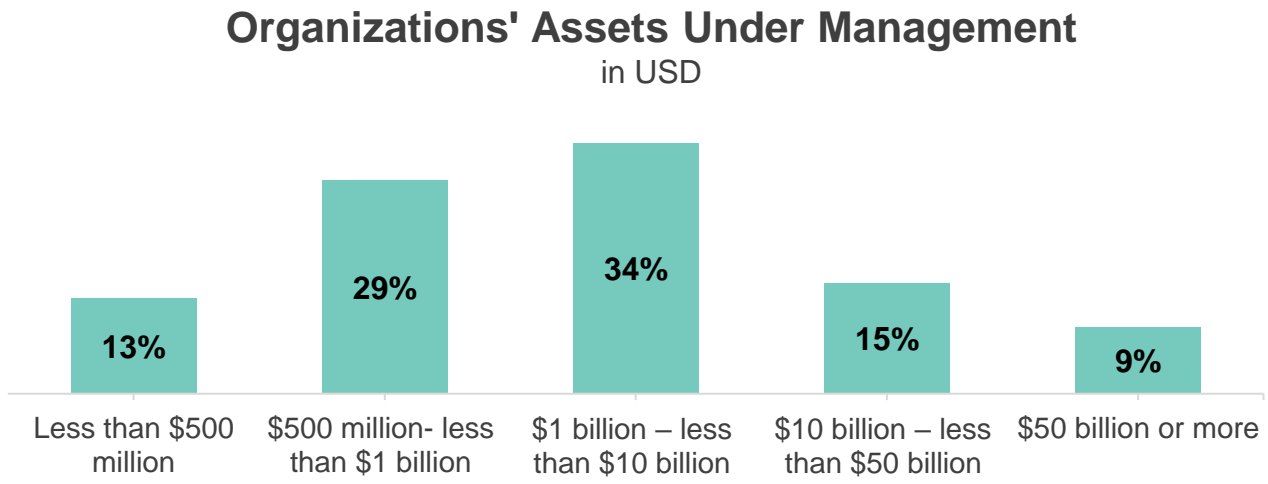
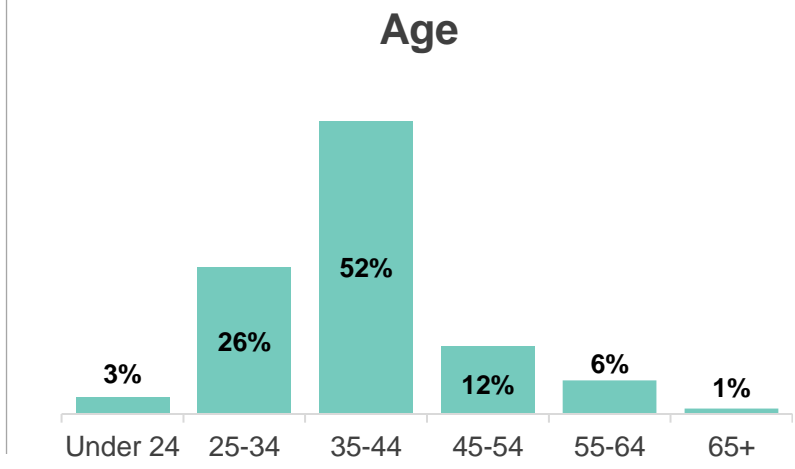
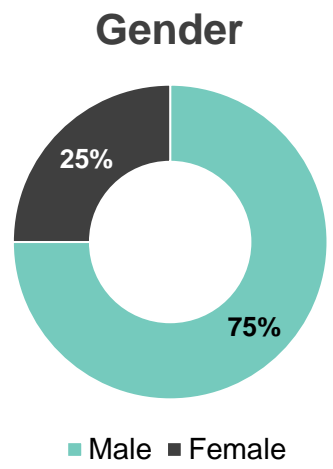
Primary Investment Style

Growth	24%
Value	23%
Industry-specific	19%
Quantitative/Index	14%
GARP	8%
Hedge	8%
Activist	4%

Respondent's Job Titles

51% Chief Investment Officers	34% Portfolio Managers	15% Buy-side Analysts
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 S1. What is your current age?
 S2b. Do you identify as...
 S9. In your current job, approximately how much are your institution's investable assets?
 S10. Which of these best describes your position or level within your company or organization?
 D3. What is the primary investment style for the funds you manage on behalf of your organization?



KEY IMPLICATIONS

1

New issuers will have to work harder to sell their investment story as IPO/SPAC activity moderates.

2

SPACs will need to navigate the evolving regulatory environment and continued perception gap vs. IPOs to be successful.

3

New issuers need to articulate roadmap to revenue growth – emphasize industry opportunity and organic capex investments.

4

New issuers should be ready to provide at least annual guidance and commit to long-term targets.

5

New issuers must showcase the strength, expertise and diversity of their board.



STATE OF THE IPO AND SPAC MARKET

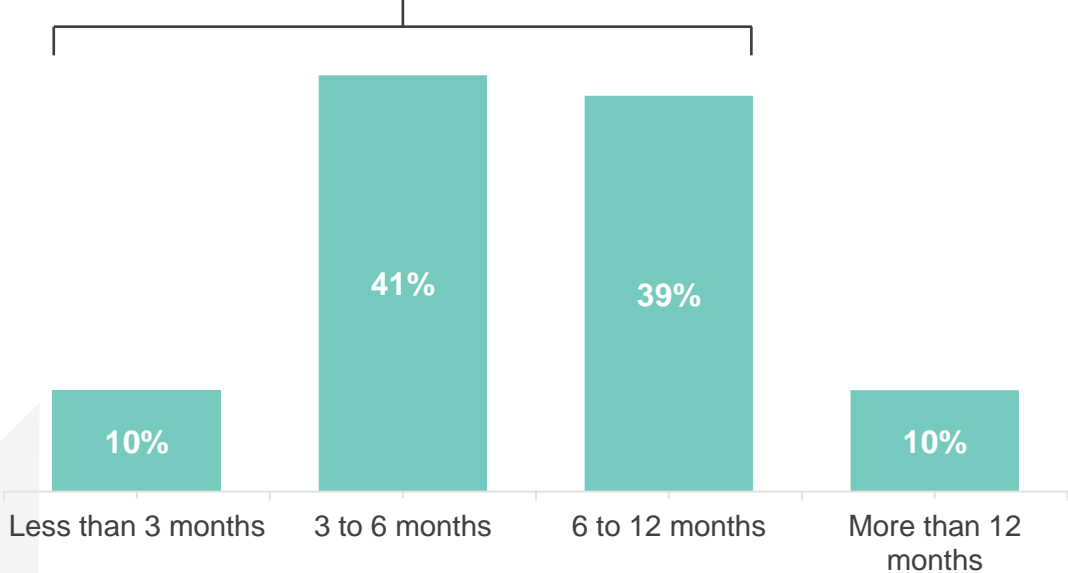
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IPO/SPAC BOOM EXPECTED TO MODERATE

Expectations for How Long the IPO Surge Will Last

% Selected among all respondents

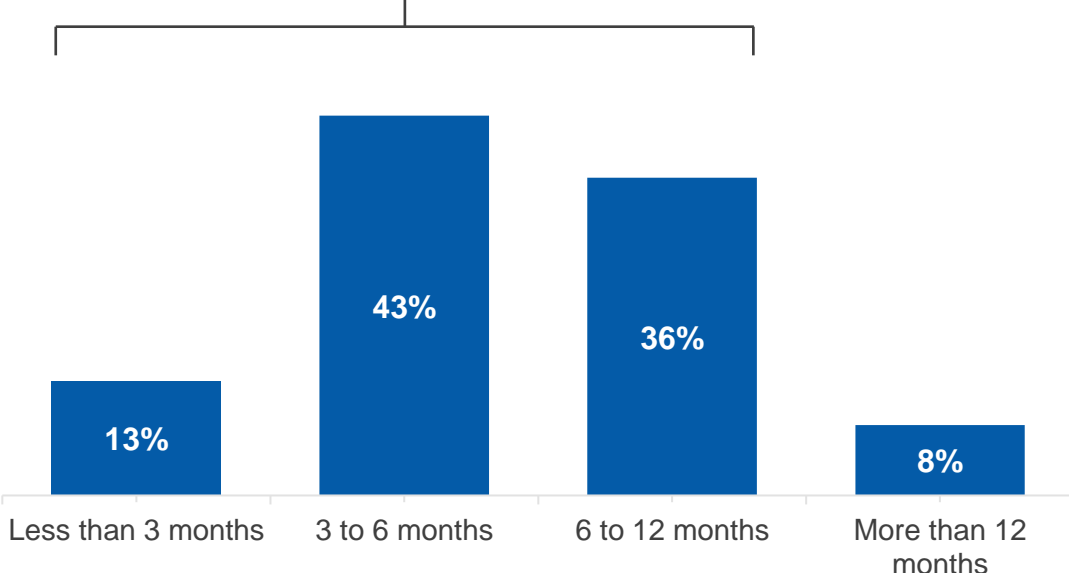
90% of investors say within the next year



Expectations for How Long the SPAC Surge Will Last

% Selected among all respondents

92% of investors say within the next year



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 Q1.Thinking about the current market environment, how long do you expect the surge in the number of IPOs to last? Please select one response.
 Q2.Again, thinking about the current market environment, how long do you expect the surge in the number of SPACs to last? Please select one response.
 [Institutional Investors (n=100)]



INVESTOR APPETITE FOR NEW ISSUERS IS STRONG



Likelihood of Investing in IPO, SPAC, or Newly Public Company in the Next Year

% Selected among all respondents



88%

Likely

Top 3 Box

38%

Extremely Likely

Top 1 Box

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S13. How likely are you or your organization to invest in either an IPO, SPAC, or stock/shares of a newly public company within the next 12 months? [7 point scale]

[Institutional Investors (n=100)]

SPACS ARE GAINING TRACTION



The investment profiles of companies that are going public through SPAC transactions has improved over the last 1-2 years”



My firm has increased its investments in SPAC transactions and/or companies that have recently gone public through a SPAC in the last 1-2 years”



88%

Agree
Top 2 Box

44%

Strongly Agree
Top 1 Box



86%

Agree
Top 2 Box

45%

Strongly Agree
Top 1 Box

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Q5.To what extent do you agree or disagree with the following statements related to SPAC transactions in particular? Please select one response per row.
[Institutional Investors (n=100)]

BUT IPOs ARE PERCEIVED AS STRONGER INVESTMENTS

“The investment profiles of companies going public via IPO are stronger than companies going public via a SPAC”



91%

Agree
Top 2 Box

44%

Strongly Agree
Top 1 Box

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Q5. To what extent do you agree or disagree with the following statements related to SPAC transactions in particular? Please select one response per row.
[Institutional Investors (n=100)]

CONSENSUS IS THAT SPACS NEED MORE REGULATION

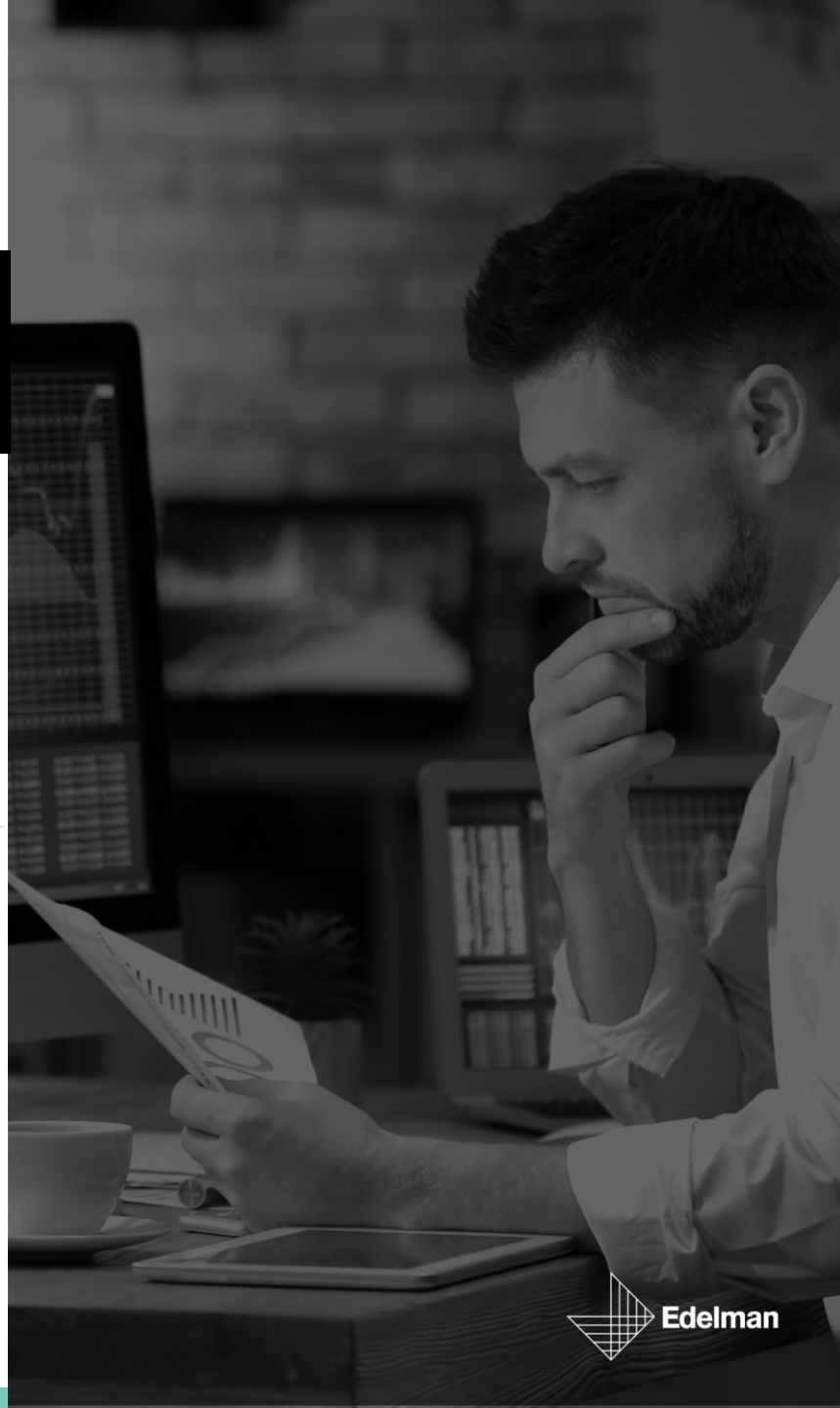
” The SPAC industry requires additional regulation from the Securities Exchange Commission”



85%
Agree
Top 2 Box

50%
Strongly Agree
Top 1 Box

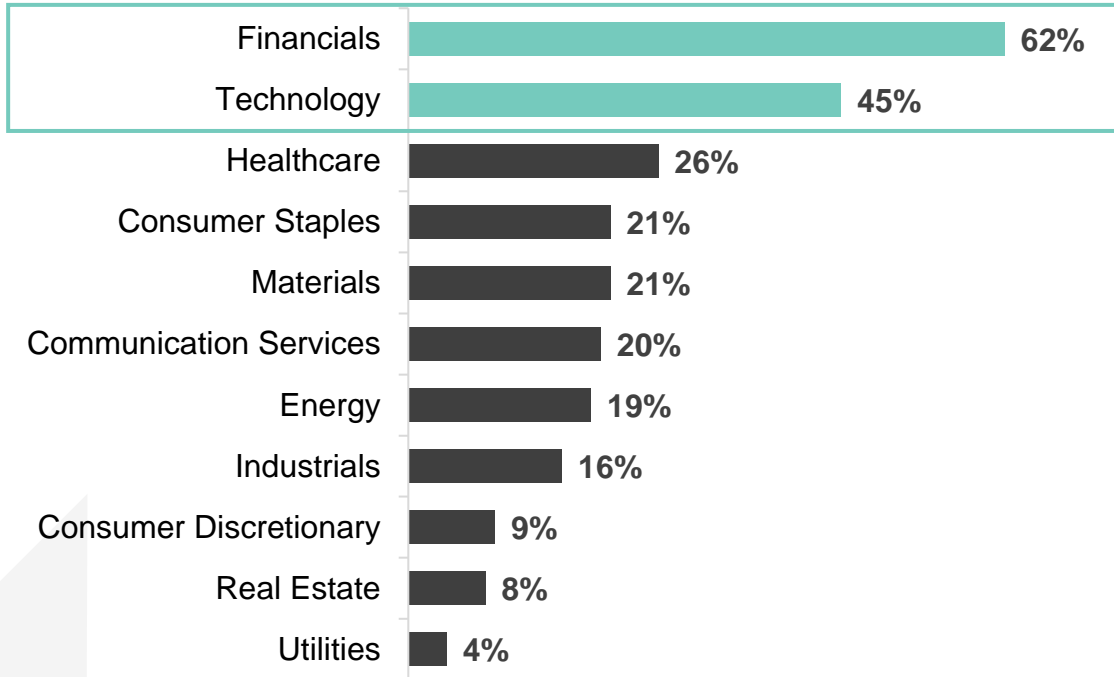
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Q5.To what extent do you agree or disagree with the following statements related to SPAC transactions in particular? Please select one response per row.
[Institutional Investors (n=100)]



FINTECH AND TECH GENERATING MOST INVESTOR INTEREST

Top 3 Sectors for IPO or SPAC Investment

% Selected as top 3 among all respondents



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Q3. Which of the following sectors is your firm the most interested in investing in from an IPO or SPAC perspective?
Please select three responses
Q4. What company would you be most excited to invest in if it were to go public in the next twelve months?
[Institutional Investors (n=100)]

Private Companies and Newly Public Companies Generating the Most Interest

Spontaneous open-end responses, includes those that may have gone public during field

 RIVIAN

 SimilarWeb

 databricks

 SPACEX

 coinbase

 wework

 zenvia

 Discord

 stripe

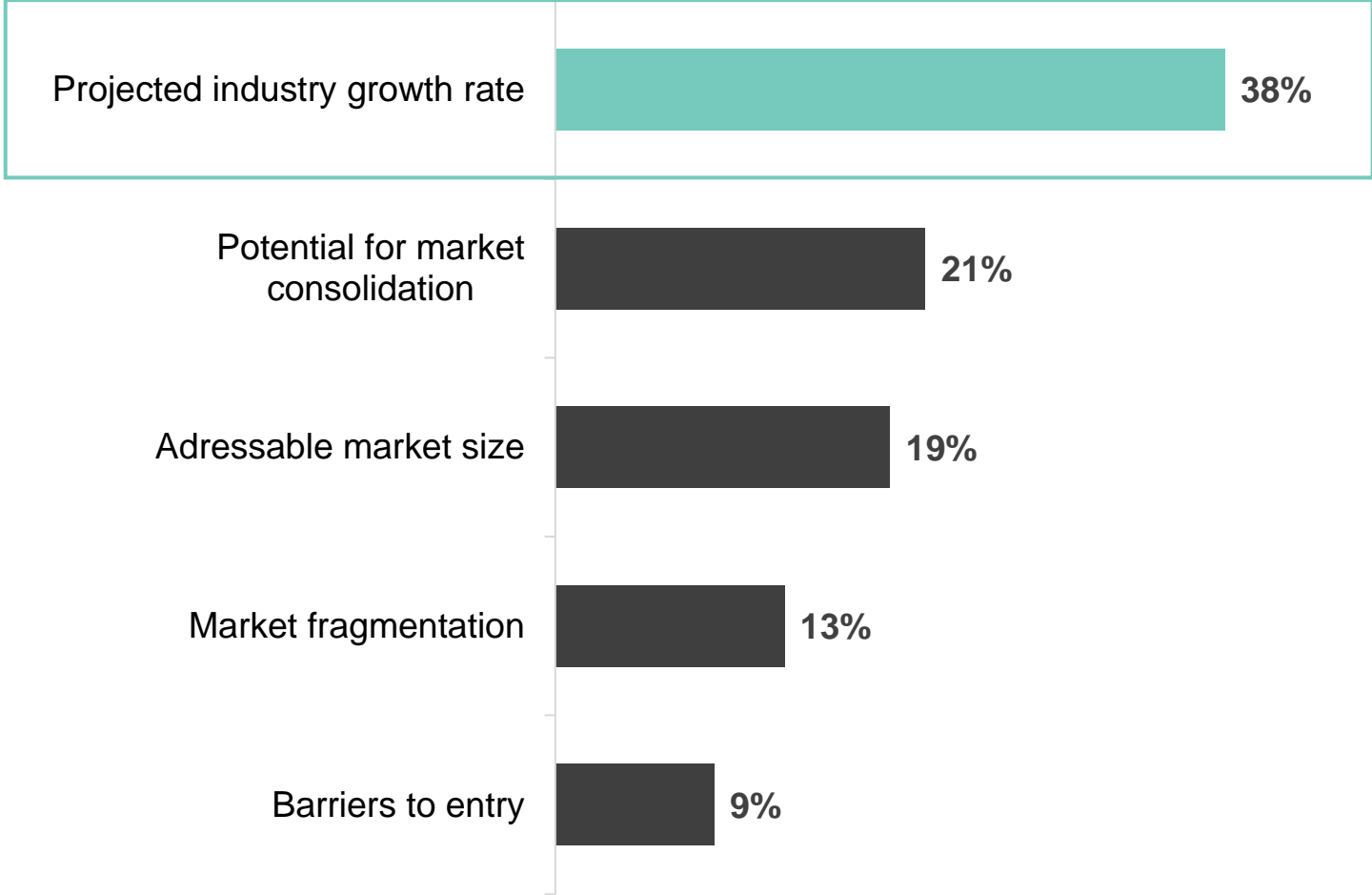
 Robinhood



EVALUATING IPO AND SPAC INVESTMENTS

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COMPELLING INDUSTRY GROWTH FACTORS ARE KEY

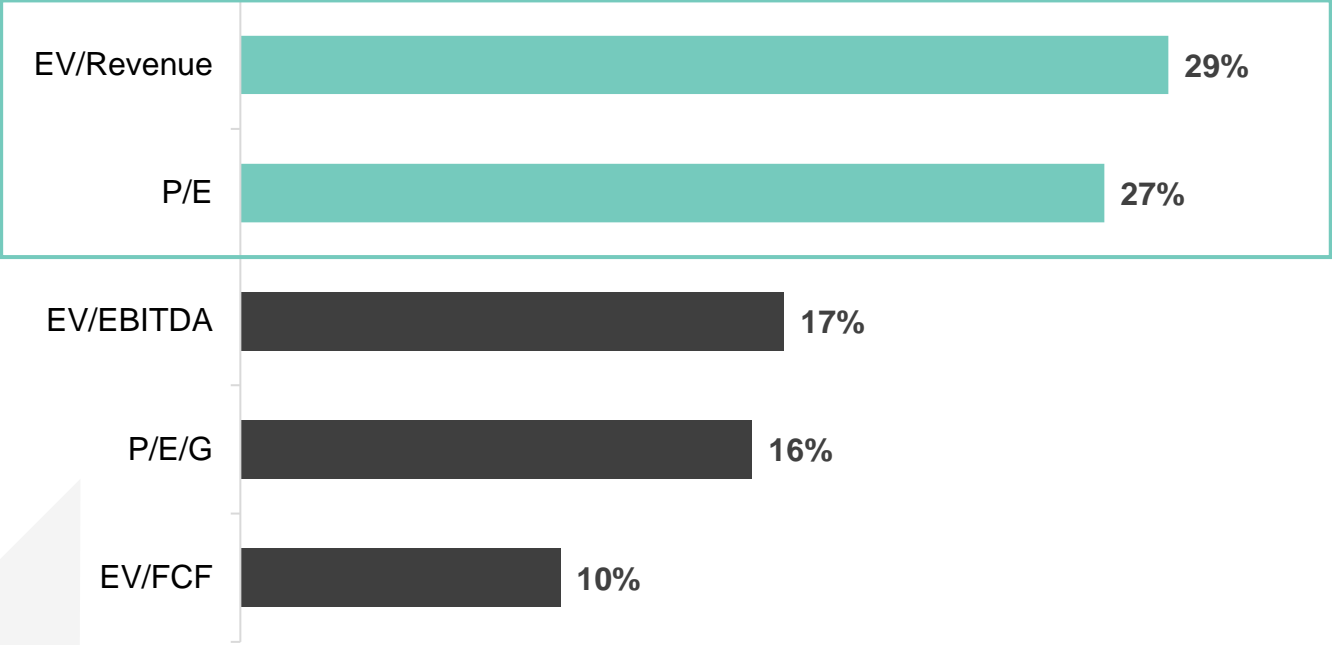


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Q7. Which of the following industry factors do you view as the most important in your evaluation of a company going public? Please select one response.
[Institutional Investors (n=100)]

REVENUE GROWTH IS DRIVING VALUATION

Most Important Valuation Metrics for a Company Going Public

% Selected among all respondents



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Q6. Which of the following valuation metrics do you view as most important when evaluating a company going public? Please select one response
Q15. To what extent do you agree or disagree with the following statements related to newly public companies?
[Institutional Investors (n=100)]



90%

of investors surveyed say they prioritize a company's non-GAAP adjustments for EBITDA and net income when determining valuation

CORPORATE GOVERNANCE IMPACTS WILLINGNESS TO INVEST

Impact of Corporate Governance Practices on Willingness to Invest in a Company Going Public

% Selected positive impact



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Q8. What impact do each of the following corporate governance practices have on your willingness to invest in a company going public? Please use a 1 to 5 scale, where 1 indicates "a great deal of negative impact" and 5 indicates an "a great deal of positive impact".

Q15. To what extent do you agree or disagree with the following statements related to newly public companies?

[Institutional Investors (n=100)]

90%

of investors surveyed say they expect a company to have a **clearly defined ESG strategy within its first year** of being a public company

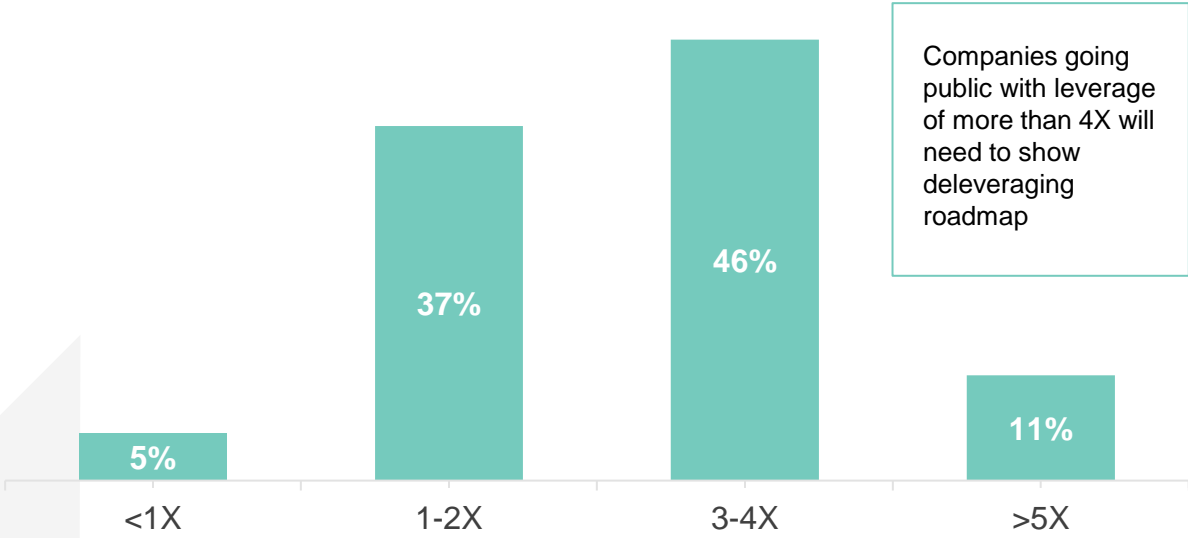
CLEAR EXPECTATIONS AROUND LEVERAGE AND USE OF PROCEEDS



What is the maximum amount of net debt/LTM EBITDA leverage you would feel comfortable investing in a company going public that has demonstrated outsized growth potential?"
 % Selected among all respondents



I will not invest in a recent IPO if proceeds are primarily used to pay down debt following a dividend recapitalization prior to the public offering"



75%

Agree
Top 2 Box

36%

Strongly Agree
Top 1 Box

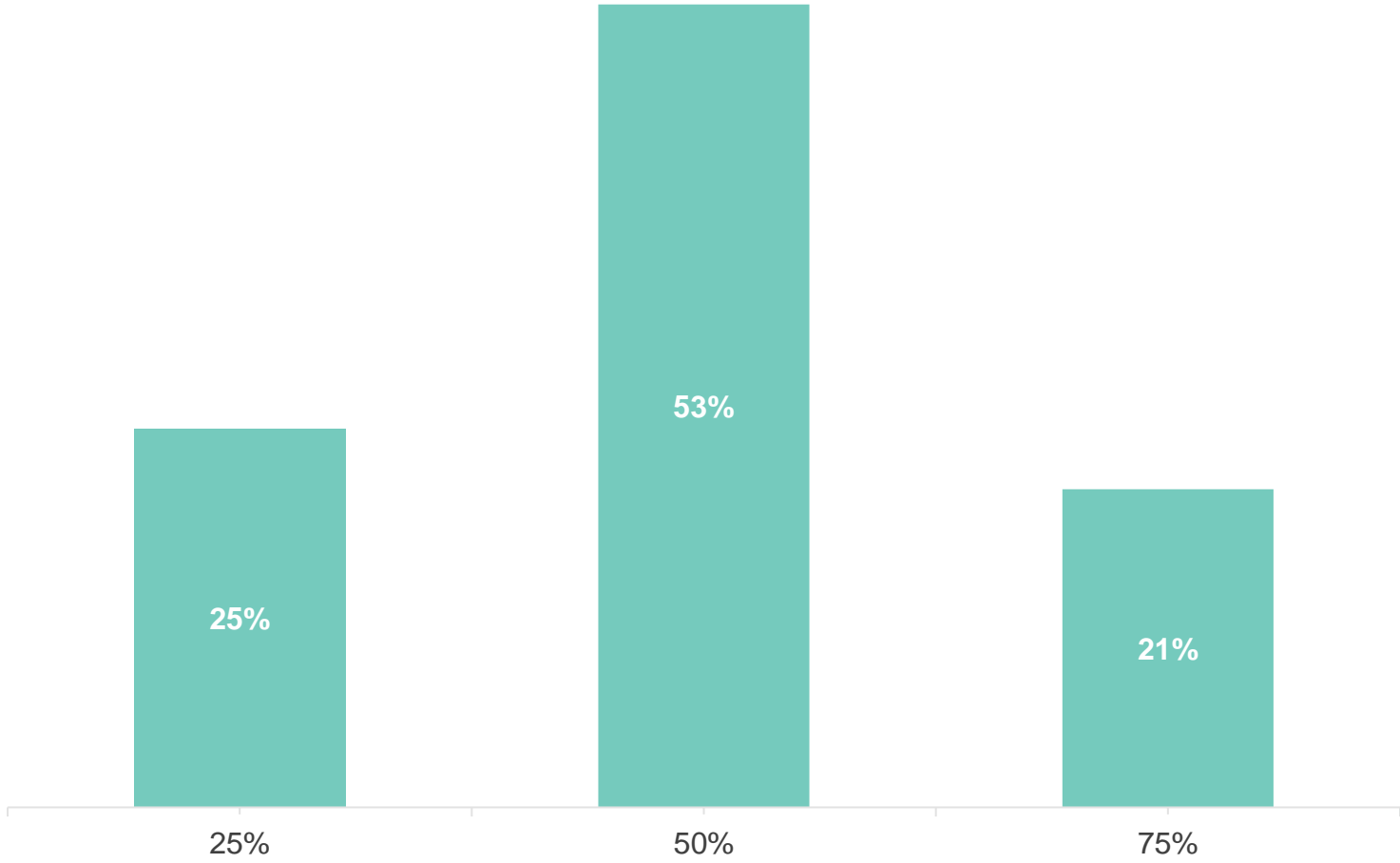
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 Q9. What is the maximum amount of net debt/ LTM EBITDA leverage you would feel comfortable investing in a company going public that has demonstrated outsized growth potential? Please select one response.
 Q15. To what extent do you agree or disagree with the following statements related to newly public companies?
 [Institutional Investors (n=100)]

FINANCIAL SPONSORS MUST MAINTAIN SIGNIFICANT OWNERSHIP



What is the maximum amount of shares sold by a financial sponsor or members of management in a company going public that would make you feel comfortable participating in the offering?"

% Selected among all respondents



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Q10. What is the maximum amount of shares sold by a financial sponsor or members of management in a company going public that would make you feel comfortable participating in the offering?
[Institutional Investors (n=100)]

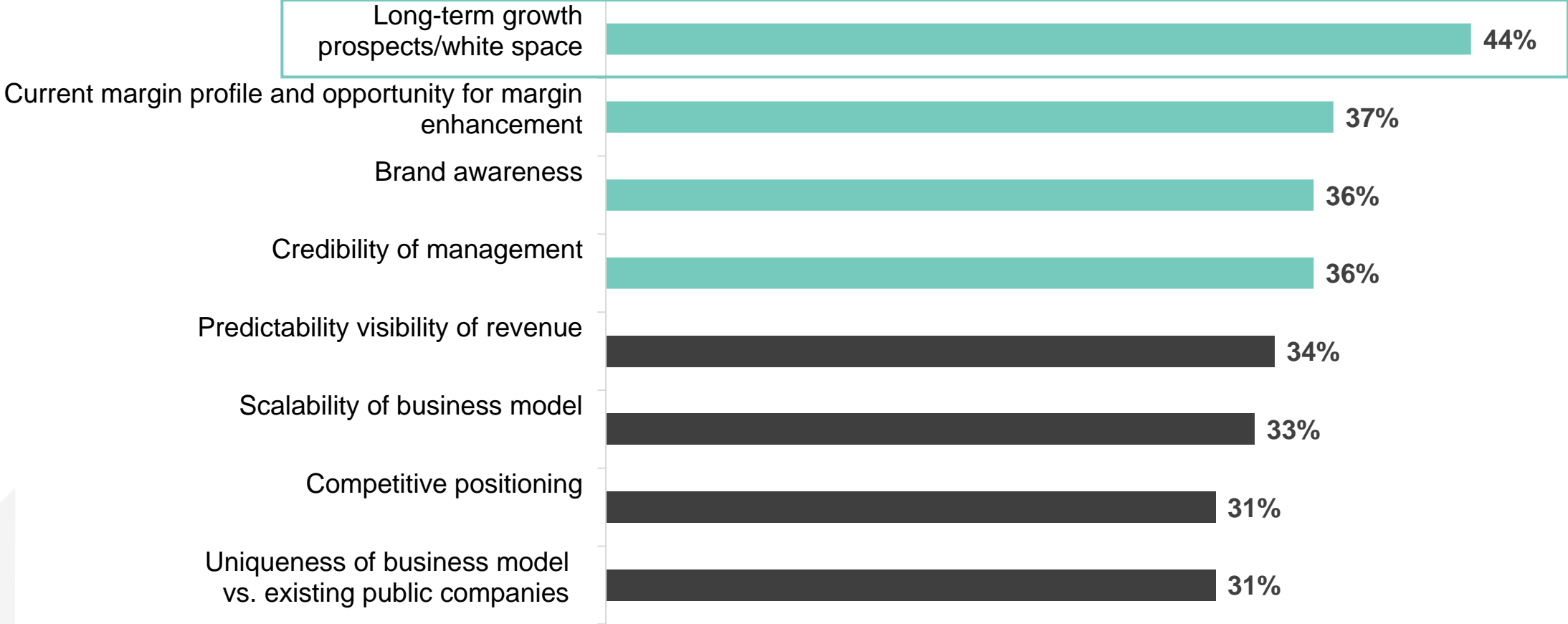
← 1-9
WALL ST

← 60-69
BROADWAY
CANYON OF HEROES

PUBLIC COMPANY EXPECTATIONS

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LONG-TERM GROWTH IS CRITICAL TO THE INVESTMENT THESIS



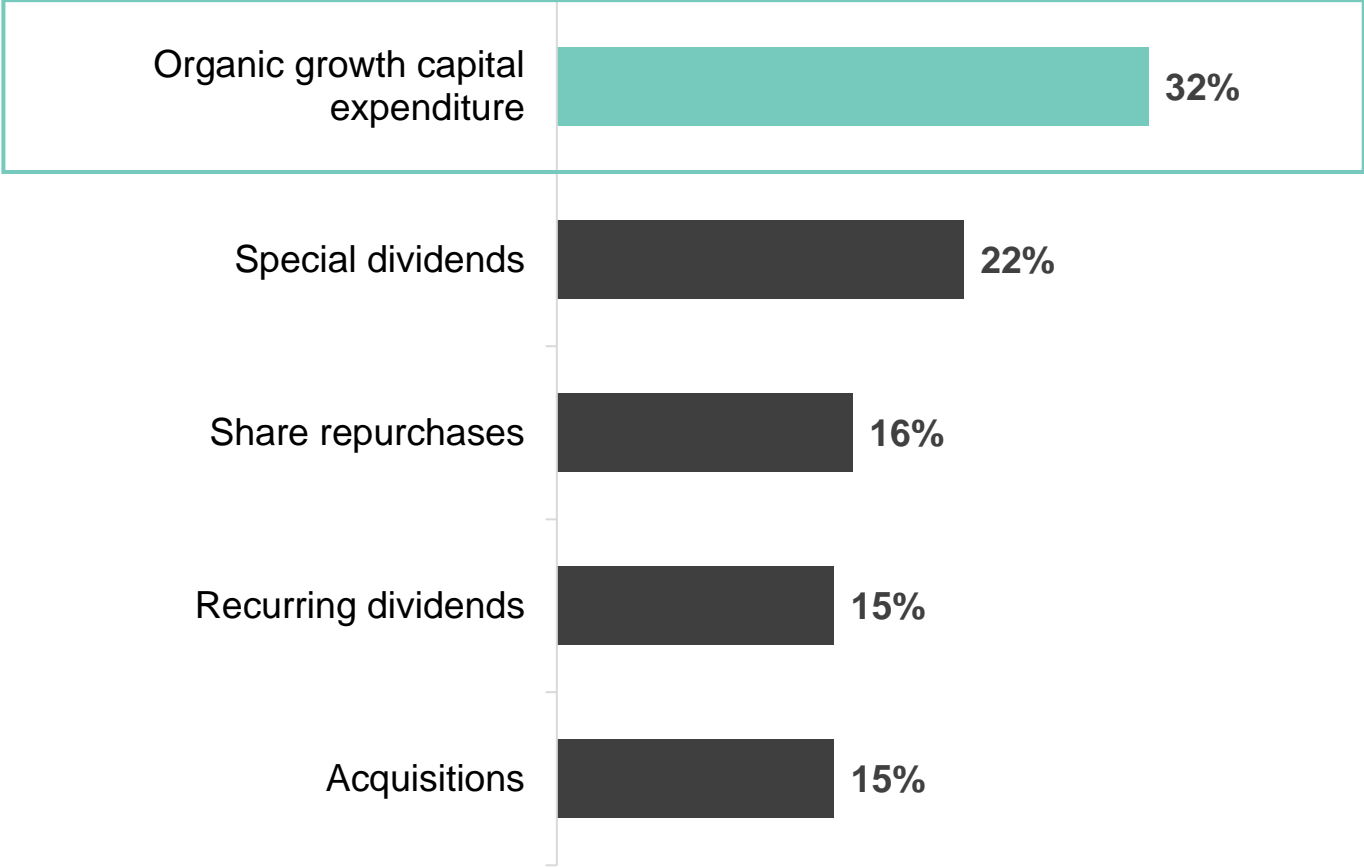
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Q13. Which of the following aspects of the investment story are the top three most important when evaluating a newly public company? Please select three.
[Institutional Investors (n=100)]

ORGANIC INVESTMENT IS A KEY PRIORITY, DO NOT OVER EMPHASIZE M&A



Top Capital Allocation Strategy Priorities for Newly Public Companies

% Ranked highest priority



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Q14. In your opinion, what should a newly public company prioritize in terms of its capital allocation strategy? Please rank the following using a 1-5 scale, where 1 is the highest priority, and 5 is the lowest priority. (% Ranked first)
[Institutional Investors (n=100)]

INVESTORS WANT FINANCIAL GUIDANCE

Most Important Time Period for Guidance Metrics of a Newly Public Company

% Selected among all respondents

32% Quarterly

52% Annually

16% Long-term (3-5 years)

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Q12. Which of the following do you view as most important time period for a newly public company to provide guidance metrics for?

Please select one response.

Q11. What are the most important guidance metrics when evaluating the future performance of a newly public company?

Q15. To what extent do you agree or disagree with the following statements related to newly public companies?

[Institutional Investors (n=100)]

1 in 3

investors surveyed say revenue is the most important guidance metric to evaluate future performance of a newly public company

89%

of investors say they would rather a company take a more conservative approach to how much near-term guidance it provides for its first few quarters

LAY THE GROUNDWORK FOR LONG-TERM FINANCIAL TARGETS

"I need to understand a company's 3-5 year financial targets in order to feel comfortable investing"

% Selected



92%

Agree
Top 2 Box

50%

Strongly Agree
Top 1 Box

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Q15. To what extent do you agree or disagree with the following statements related to newly public companies?
[Institutional Investors (n=100)]





For more information, please contact:

Ted McHugh

Executive Vice President, Head of Investor Relations

Ted.McHugh@Edelman.com

Nicole Briguet

Senior Account Supervisor

Nicole.Briguet@Edelman.com