THE WALL STREET JOURNAL.

09.26.20: The IPO Market Parties Like It's 1999

In the midst of a recession, investors pour money into newly public companies in a frenzy that could rival the dot-com boom…

Many businesses are struggling. Millions of Americans are out of work. But the IPO market is the hottest it's been in years and 2020 could be its biggest year ever.

With three months left on the calendar, U.S.-listed initial public offerings had raised nearly $95 billion through Wednesday, according to data provider Dealogic. That already surpasses the totals of every year since the tech bubble in 2000 except 2014. It's nipping at the heels of even that year, when IPOs raised $96 billion, more than a quarter of it by Alibaba Group Holding Ltd.

Bankers, lawyers and executives say that if the frenetic pace keeps up, 2020 will eclipse the tech-boom years of 1999 and 2000, when investors feverishly pumped money into burgeoning internet stocks before they crashed to earth.

Investors are gobbling up these new listings, with this year's IPOs posting the biggest gains during their trading debuts since 2000, at 22% through Wednesday. On average, 2020 IPOs have risen roughly 24% from their original prices.

The fortunes of the IPO market have never been more divergent with the state of the U.S. economy. The coronavirus pandemic sent businesses into free fall, pushing unemployment to its highest level ever this spring. But it also caused a shift in the economy. With everyone relying more on technology for work, school and everyday communications, the value of companies providing related services pushed higher. And with low interest rates limiting returns on traditionally safe investments like bonds, investors are looking for ways to make money wherever they can.

This year, more than 80% of the money raised by initial public offerings falls into successfully operating small businesses and newly popular blank-check companies? shell firms whose only purpose is to acquire a private target and take it public. That is the most concentrated the IPO market has been since 2007, according to Dealogic, when new listings of banks and lending institutions flooded in before the financial crisis.

More than 235 companies have joined the U.S. public markets this year, on track for the most since 439 companies went public in 2000, according to Dealogic. They'll soon be joined by giants Airbnb Inc. and Palantir Technologies Inc., which are to go public later this year after long tours as private companies.

Even Warren Buffett, America's most well-known value investor, who typically avoids investing in startups, is participating.

Mr. Buffett's Berkshire Hathaway Inc. bought roughly $735 million in shares of data-warehousing company Snowflake Inc.'s public offering. Shares finished their first day of trading on Sept. 16 at more than $250 apiece, more than double their IPO price?making it the biggest tech IPO of the year. At the end of that first day, the company had a market value of $70.4 billion. Berkshire's stake was worth nearly $1.6 billion.

The state of the IPO market is a huge reversal from just a few years ago, when many venture capitalists and CEOs had declared the initial public offering all but dead. For more than a decade, companies opted to raise giant amounts in the private markets, made possible thanks to large funds such as SoftBank Group Corp.'s $100 billion Vision Fund. Staying private allowed startups to avoid the hassle of regulatory disclosures and prevented them from having to answer to public shareholders. In 2016, IPOs and their investors raised less than $25 billion.

Now companies are growing wary of staying private too long after watching some marquee IPOs, like Uber Technologies Inc. and Lyft Inc., struggle last year. Public investors are also rewarding high-growth companies with big valuations they are unlikely to fetch in the private markets, a change from a few years ago. Companies are now trying to hit a sweet spot, going public after they've had a chance to mature a bit but before their strong growth trajectory has slowed.

New alternatives

The market is less ecstatic than the feverish tech bubble that infused massive amounts of capital into internet companies like Pets.com, which then burned through cash and collapsed just months later, devastating the stock market. Still, companies that had previously written off a 2020 IPO are forging ahead this year, hoping to ride the wave. Others are planning public debuts in the first half of 2021.

The process of going public is changing as well, after remaining mostly the same since the 1980s.

"It used to be a formulaic conversation about the path to going public," said Bennett Schachter, who heads global alternative capital solutions at Morgan Stanley. Those stages tended to be a series of fundraising rounds, perhaps a private placement to pre-selected investors, a so-called crossover financing round that involves investors that mostly work with public companies, followed by an IPO. "Now there is this broader and increasingly well-accepted spectrum of alternatives."

Blank-check companies have exploded this year as an alternative to the traditional IPO, accounting for more than 40% of the money raised in IPOs this year. That compares with an average of 9% over the previous 10 years, according to Dealogic.

"SPACs have the possibility to be the leader in the future," he said, noting one of their biggest benefits for founders is that in a reverse merger, a startup can provide shareholders with earnings and growth projections for the future. In a traditional IPO that isn't allowed.

Another alternative more companies are exploring is going public through direct listings in which they list employees' and investors' existing shares on the open market, giving them the option to cash out their stakes. That lets companies avoid investment banks' big fees for underwriting an IPO, but doesn't allow them to raise additional money.

"There's been more innovation in the last two years than in the last two decades," said Stacey Cunningham, the president of the New York Stock Exchange. "There is a renaissance in the IPO market."

Social-distancing measures to avoid the new coronavirus have also shaken up the process. The typical IPO roadshow spanned a grueling eight to 10 days when executives traveled the globe and peddled their wares to prospective investors in conference rooms. Now, roadshows are typically shorter and entirely virtual, enabling more investors to participate than ever before.

When online insurance broker SelectQuote Inc. listed its shares on the NYSE in May, it used a four-day virtual roadshow. "Who would've thought you could raise $350 million in your pajamas from the comfort of your home?" the company's CEO, Tim Danker, said.