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Promising European Tech IPO candidates will successfully meet financial markets

Why do many European unicorns choose to list in the US rather than in Europe?

The attractiveness of the US is structurally linked to the depth of its investor base, which is larger, wealthier and more specialised, as well as to its larger pool of listed companies, which offers greater comparability. Finally, the US is the largest market in the world for certain industries such as pharmaceuticals, biotech, and software.

Delving into the details, since 2018, only 50 European companies have gone public in the US, accounting for less than 5% of the total number of listings of European companies. Among these, 60% are from the Healthcare sector.

For which results? Euronext-listed issuers achieve higher valuations than US-listed European issuers. Liquidity in Europe and the US is at par for mid and large cap equities.

What explains the lack of attractiveness of IPOs for young, innovative and successful companies?

Innovative start-ups often offer a risk/return profile that is in line with the mandates of venture or growth investors. In addition, venture and growth investors raise far more funds than European SMID funds and specialise in technology. IPOs should ensure continuity of funding at more mature stages, when the innovation has demonstrated that it can create a new market or replace an obsolete one. But Europe's financial markets face headwinds.

Firstly, the shortage of tech investors is illustrated by the very low allocation of European funds to the tech sector: only 4% ($0.1T) is directed towards software and another 4% ($0.1T) towards hardware, compared with 16% ($2.7T) and 13% ($2.2T) for U.S. funds, which limits Europe's capacity to finance tech.

Secondly, the financial performance of Tech IPOs over the last 5 years has been very poor, declining by an average of 49% among the 15 French Tech IPOs examined, with only two out of the 15 showing a positive return.

When examining the total amount raised though IPO transactions over the past five years, European IPOs have raised $156 billion, which is three times less than the $436.5 billion raised in the United States during the same period."

How can we boost the financing of innovation through IPOs in the EU?

To improve the attractiveness of IPOs, we need to attract stock market investors to IPOs in Europe. This can be achieved by offering them high-quality companies with a risk profile that align with their investment mandates: companies with strong customer validation of their products and able to demonstrate their profitability in the short term. Most importantly, valuations should accurately reflect the IPO risk, offering a discount of approximately 20% compared to listed peers or M&A transactions.

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At the same time, on the demand side, investors need to create specialised vehicles dedicated to investing in tech IPOs in order to make the market attractive to companies. This is precisely what we have accomplished with CDC Tech Premium. The Fund was created two years ago by CDC Croissance with the support of Group Caisse des Dépôt and Bpifrance. CDC committed 300 M€, supplemented by an additional 50 M€ from a leading insurance company. We received the Tibi approval in 2023.

What exactly are we financing? We finance Innovation and growth, we provide liquidity to venture capital and private equity and we facilitate post-IPO financing and liquidity.

How do we invest? We invest at the IPO or post-IPO stage through capital operations such as accelerated book building or follow-on offering. Our focus is on French and European companies within the Eurozone, with a preference for listings on Euronext and a priority (but not an exclusivity) on France. CDC Tech Premium targets strategic Tech companies with global market potential, across all sectors including energy, marketplace, robotic, medtech, biotech... We select companies with a market capitalization between €300 million and €7 billion as we seek firm with a certain level of maturity.

Last but not least CDC Tech Premium is a Cornerstone Investor taking a significant part of the free float. What are the benefits of this strategy for the market? We work on a fair valuation reflecting the IPO risk, we give advice on the equity story and the guidance and we ask for ESG practice improvement. How do we benefit from it? By receiving 100% of the shares we request, regardless of the book coverage. Additionally, as a cornerstone investor, our name is mentioned in the prospectus, enhancing our reputation in the market.