

Newly Public Operating Companies Snapshot: Jan-Jun 2023

Since 2017, CII has tracked U.S. initial public offerings (IPOs) to monitor the proliferation of dual-class structures.¹ This snapshot examines IPO activity in the first half of 2023, as well as trends in relation to 2022.

First Half of 2023

From January 1 to June 30, 2023, there were 10 traditional IPOs, 15 de-SPAC mergers, and no direct listings.

Of these 25 companies, three have dual class structures with unequal voting rights. These companies represent 12% of total companies in 1H 2023:

- 3 de-SPAC mergers (20% of all de-SPAC mergers)

Out of the three companies with unequal voting rights, one has adopted a time-based sunset:

- Intuitive Machines (7 years)

The two following dual-class companies (8% of all newly public companies in the first half of 2023) did not adopt time-based sunsets, and are of greatest concern to CII for their long-term misalignment between voting rights and equity stake:

- Beneficient
- United Homes Group

Unequal voting and time-based sunsets at newly public companies % of companies, 1H 2023

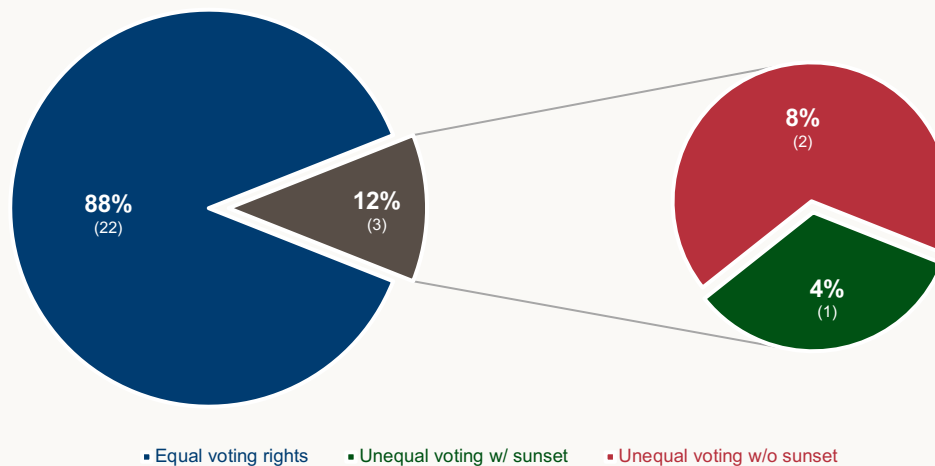


Figure 1. Newly public companies with the following shareowner voting structures, represented as a percentage of all companies tracked by CII in 1H 2023: equal voting rights (blue); unequal voting rights with time-based sunset (green); unequal voting rights without time-based sunset (red).

Source: CII analysis of StockAnalysis.com, SPAC Track, SEC filings via BamSEC

¹ CII has monitored the proliferation of dual-class share structures in initial public offerings (IPOs) since 2017. As of 2021, the universe of companies tracked by CII includes traditional IPOs, direct listings, and de-SPAC mergers. CII does not include shell company IPOs, foreign private issuers (FPIs), Real Estate Investment Trusts (REITs) or companies valued below US\$200 million in public equities when tracking unequal voting structures.

Trend analysis

Twenty-five companies went public in the first six months of 2023, representing an 8.7% increase from 23 companies during the same period in 2022. A small decrease was seen in the number of traditional IPOs: only 10 companies went public via a traditional IPO in the first half of 2023, a 28.6% decrease from 14 traditional IPOs during the same period in 2022. 15 companies went public via a de-SPAC merger between January and June, nearly double the eight de-SPAC mergers during the same period last year.

Although the climate for new public offerings continues to be poor this year, the share of newly public companies featuring equal voting structures inched up slightly to 88% in the first half of 2023, rising three percentage points from 85% overall last year.

In addition, out of the 10 traditional IPOs tracked by CII in 1H 2023, zero had unequal voting rights. All three companies with unequal voting rights in this period were de-SPAC mergers. In 1H 2022, four companies had unequal voting rights: one traditional IPO, and three de-SPAC mergers.

The decreasing proportion of newly public companies with dual class structures suggests a potential reversion to legacy levels of unequal voting across the market. Historically, about one in 10 companies went public with unequal voting structures.

Among companies with dual-class structures, CII observed a 33% adoption rate for time-based sunsets in 1H 2023, a notable decrease from 50% in 1H 2022 and 43% for 2022 overall. However, this must be taken into account with the fact that only 12% of companies monitored by CII adopted unequal voting rights to begin with. This is a notable decrease from 15.2% in 2022 overall and 22.7% in 2021 overall.

One share, one vote structures and time-based sunset provisions

Adoption at newly public companies, % of companies, annual

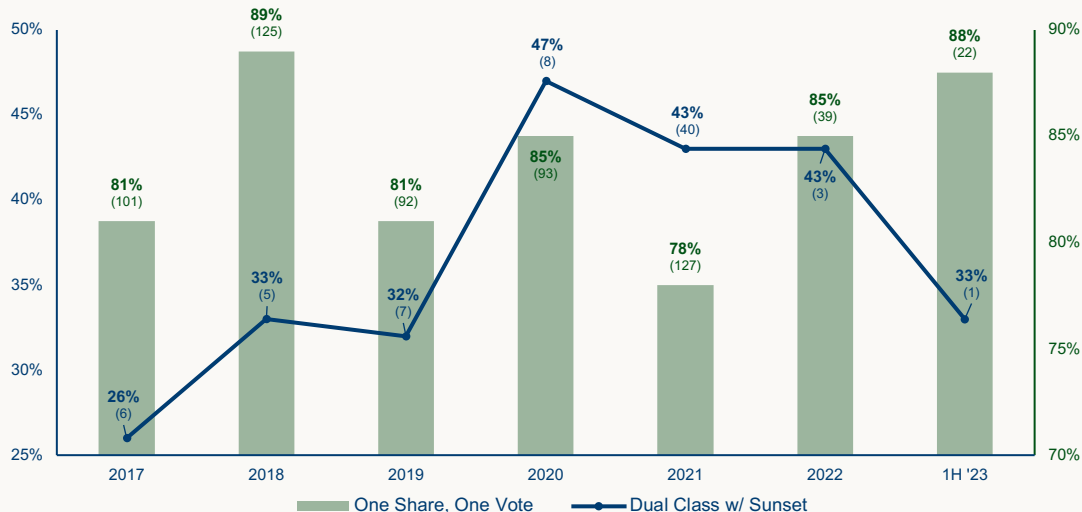


Figure 2. Percent of newly public companies with one-share-one-vote structures (green) vs. percent of newly public dual-class companies with time-based sunset provisions (blue). Sample size for each data point is shown in parentheses.

Note: CII updated its tracking criteria in 2021 to exclude shell company IPOs and include de-SPAC mergers.

Source: CII analysis of IPOscoop, SPAC Track, StockAnalysis.com, SEC filings via BamSEC