

## Ideal Holding Period

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There has been much eagerness for Unicorn IPOs lately. Historically, getting in at IPO price has intrigued public investors. Investing at IPO price has not always paid off in the long run, yet public investors continue to wait for Unicorn IPOs and attempt to get in at the offering price without considering data for optimum returns.

Some questions that generally are asked by public investors considering IPO investment include:

- “When is the best time to exit from an IPO investment?”
- “What is the ideal step up in value from an IPO investment?”
- “Which sectors provide the best returns?”

This is only a partial list; analysts and investors can debate above topics endlessly. We at IHS Markit's Private Capital Markets group thought we'd try to provide the answers investors are looking for, by investigating the data.

We started to analyze **public data**\* to understand some of the above questions. To narrow our research, we focused on one question - what is the ideal holding period for maximum return after an IPO? - in order to understand optimum return and holding period from a public investor's perspective.

To analyze this question, we collected data for companies that went public from 1985-2015, focusing on venture-backed IPOs that debuted on US exchanges. A total of 1300+ companies from ten sectors were analyzed. To **further narrow** the data, we only considered stock price at which the company opened on the day of IPO to the price at various subsequent dates from the IPO date.

### The subsequent dates include:

- |            |            |
|------------|------------|
| - 1 day    | - 1 year   |
| - 1 week   | - 2 years  |
| - 1 month  | - 5 years  |
| - 3 months | - 10 years |
| - 6 months |            |

Note that we only analyzed stock price for companies that fit the restrictions mentioned above. No other factors were considered in this analysis. Given the theory of 'perfect markets', we assumed the stock price alone should be a benchmark for determining answer to the above asked question.

\*Source: S&P CapitalIQ

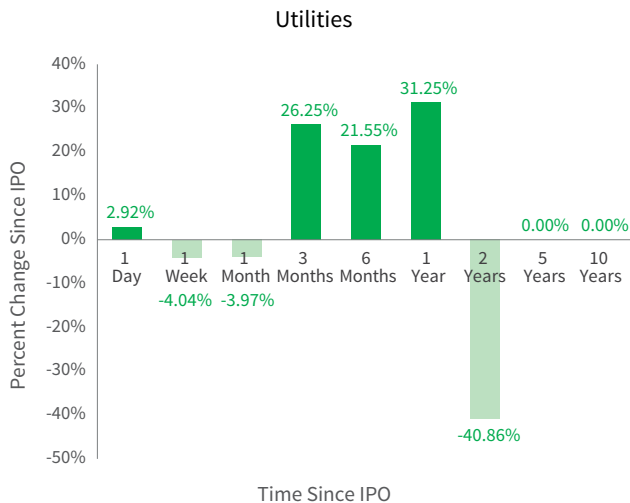
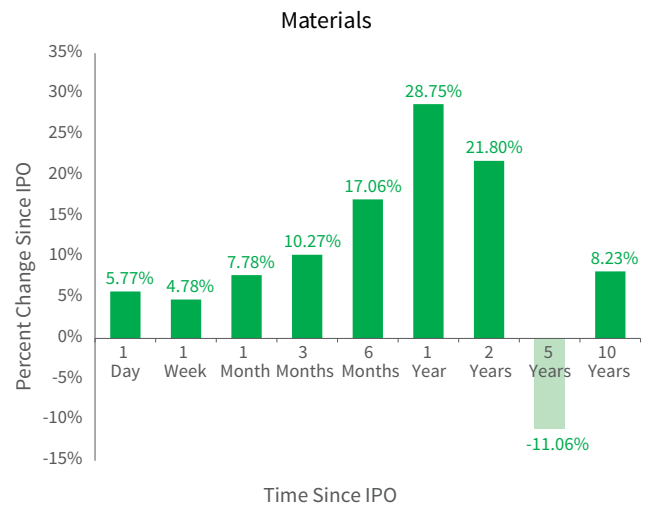
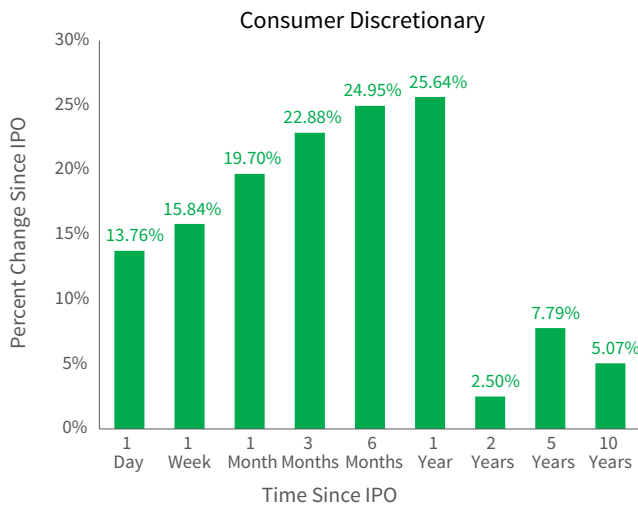
## Key Takeaways (see supporting charts)

- Companies from all ten sectors indicated that the returns dropped dramatically after 1-2 years of IPO
- The optimum return period for holding the stock was <1 year
- Sectors with the highest returns were consumer discretionary, materials and utilities
- Sectors with the lowest returns were energy, financial and telecommunications
- Only sector that indicated positive return after the first 1-2 years was consumer discretionary
- Long term (5+ years) returns were lowest in energy, healthcare, industrial and information technology

These observations are just the tip of the iceberg (one variable missing from our analysis is trading volume, which we may consider in future installments of this series). Additional analysis would be required to understand the reasons for the above observations, but one reason does come to mind: SEC Rule 144; where institutional investors have restrictions on holding period, and trading volume of public stock.

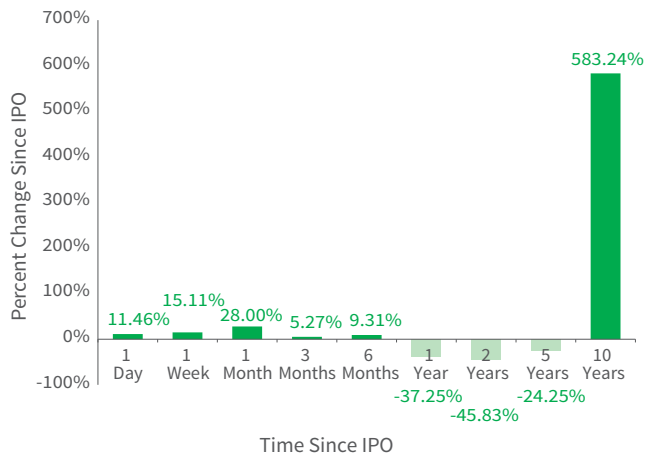
The IHS Markit Private Capital Markets group continues to conduct research and analysis on this topic, digging deeper into something that is very much on the mind of public investors as they wait for Unicorn IPOs. We look forward to sharing our conclusions.

## Highest Returns

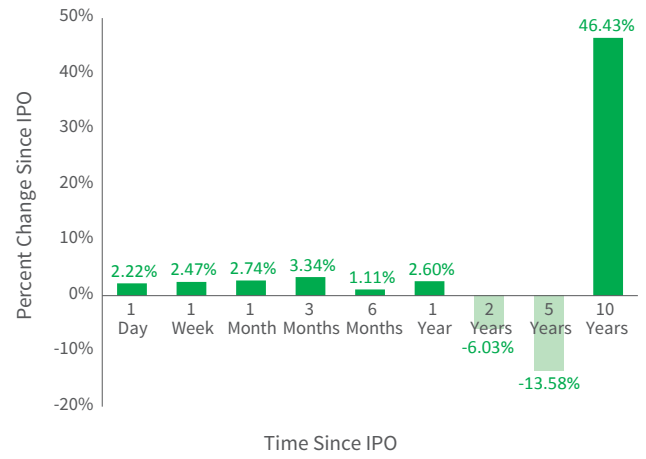


## Lowest Returns

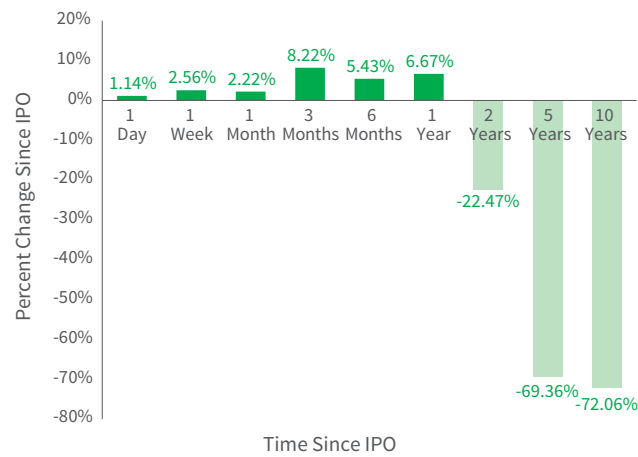
### Telecom



### Financial

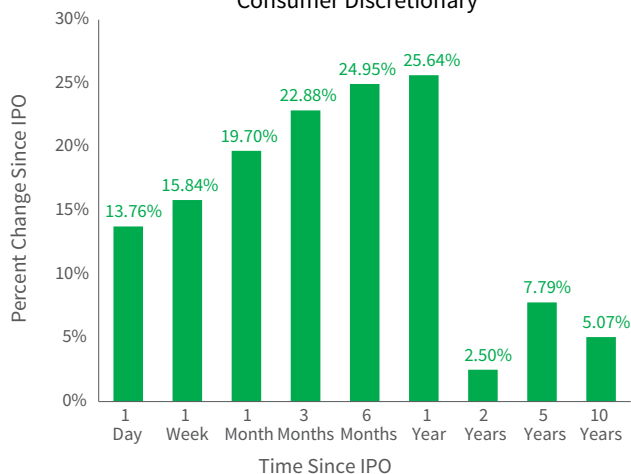


### Energy



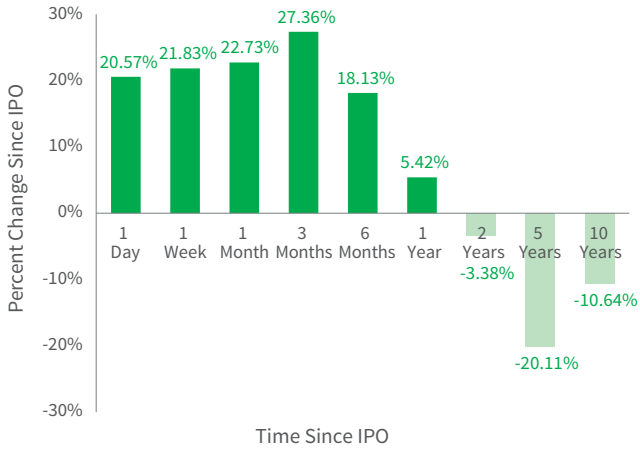
## Only Positive Returns

### Consumer Discretionary

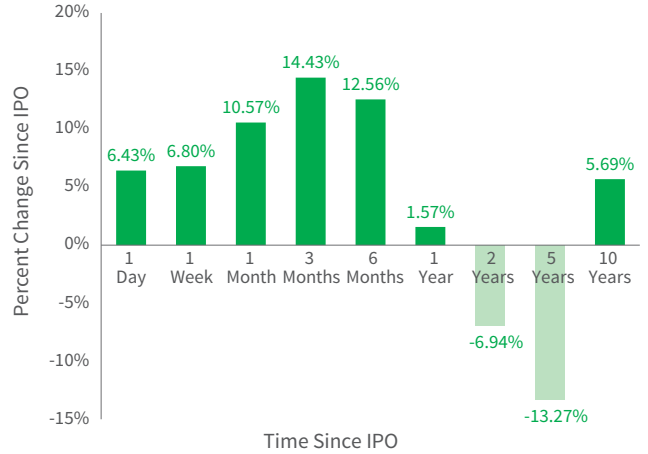


# Long Term Lowest Returns

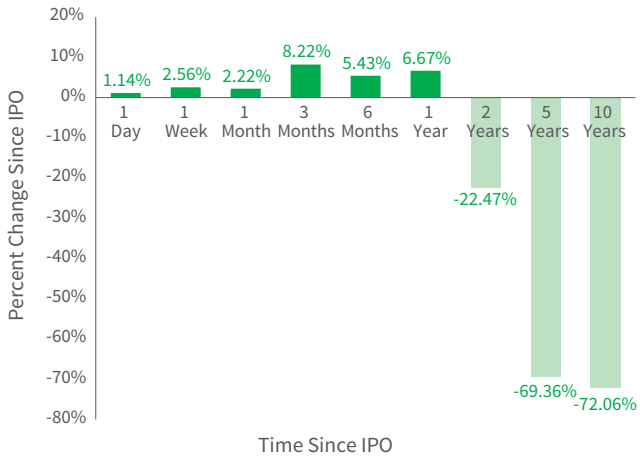
### Information Technology



### Healthcare



### Energy



### Industrials

