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The IPO Market Is Open Again! At Least for the Moment.

Arm, Instacart and Klaviyo popped on their first trading day, but their performance since then has muted

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The initial public offering market has felt surprisingly normal over the past two weeks, at least on the surface.

British chip-designer Arm Holdings brought fish and chips—and a makeshift British pub—to Nasdaq's Times Square headquarters to celebrate its stock-market debut this month. On Tuesday, executives and employees gathered at grocery-delivery company Instacart's San Francisco headquarters to ring in the first day of trading with a carrot-shaped bell. The next day, the floor of the New York Stock Exchange welcomed Klaviyo executives and backers to the podium to cheer on the marketing-automation platform's IPO.

These three marquee listings represented the chance to revitalize an IPO market that has long been in disrepair. The results, though, have been inconclusive.

Arm, Instacart and Klaviyo all priced their offerings at the high end or above recent expectations, and their shares all rose on their first day of trading. They have since retreated, however, with Arm's and Instacart's stocks briefly falling below their IPO prices. Arm, after jumping 25% on its first trading day, declined for the following six. Tech stocks broadly fell last week, dragged down by investors coming to grips with the fact that the Federal Reserve is serious about keeping rates higher for longer.

"They all opened strong and then faded. Until that's fixed, it will still be a soft opening for the IPO market," said Renos Savvides, head of equity capital markets at Neuberger Berman.

IPOs are a critical part of the U.S. economy, and when the flow of companies listing shares slows, it can also slow capital formation and job creation. When companies go public, the shares they sell put money in the pockets of employees and early investors. If companies list shares when they are younger with more room to grow, their IPOs can enable small public investors to reap big future gains.

Advisers for Arm, Instacart and Klaviyo understood the stakes of bringing them to market. They structured the offerings cautiously. For example, all three companies lined up cornerstone or strategic investors who would commit ahead of time to buying a chunk of the IPO.

After all, the IPO market is still sleepy, at least compared with where it was in 2021 before the Fed started its rate-hiking campaign. In that low-rate world, investors looking for yield were happy to embrace risky growth stocks, driving prices for startups to historic highs. Traditional IPOs in the U.S. raised more money than ever before in 2021, according to research firm Dealogic.

That all came to a halt in November of that year when Fed members expressed concerns about inflation and warned they might raise interest rates faster than expected.

The prices investors were willing to pay for high-growth companies—both public and private—plummeted. Last year, traditional IPOs in the U.S. raised the lowest amount of money in at least two decades, Dealogic data show.

When Instacart went public last week, it sold its stock at a price that valued the company at $9.9 billion on a fully diluted basis. That was far below the $39 billion valuation Instacart commanded in a funding round in 2021.

Skeptics say that means the 2021 vibes are long gone, at least for now. Investors and advisers say Instacart's willingness to accept such a severe valuation cut in its IPO is actually a good sign for the market, as it might embolden others to do the same.

"Most venture capitalists recognize the last rounds, in many cases, represented stretch goals that are unattainable prior to a public listing," said Mark Caccavo, general partner at Millennia Capital, a firm that invests in late-stage venture-backed companies. "As soon as we get down to valuations that make sense, when we see sellers capitulating, I think you'll see public investors take notice."

Other big listings within the past year—including Intel self-driving car unit Mobileye, Johnson & Johnson's consumer healthcare business Kenvue, Mediterranean restaurant chain Cava Group and direct-to-consumer beauty company Oddity Tech—also offer a mixed view of the IPO market. Oddity and Kenvue are trading below their IPO values; Mobileye and Cava Group are up.

Trendy shoe designer Birkenstock is expected to list shares in October, while healthcare payment-software firm Waystar is considering an offering before the end of the year, according to people familiar with the matter. IPO advisers say the market is open for large companies with proven results.

"Investors are receptive to new issuances but only for a certain type of company," said Chris Donini, managing director at Raine Group, which was an adviser to Arm on its IPO. "Investors want to see financial stability, and they want to see a catalyst for growth."

For now, the window is open, even if it isn't clear how wide or for how long.

Savvides, who advises Neuberger Berman portfolio managers about IPOs, said he is now fielding three to five requests a week for "testing the waters" meetings from private companies considering IPOs. Six months ago, he would get maybe one a week, or none.