

Mega-cap IPOs: When Private Goes Public

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Luke Flemmer

As most of the world is aware, by now, SpaceX has filed in S-1 and is moving towards an IPO. This is more than just a market headline with an IPO of this scale. Understanding where and how exposure may exist across portfolios becomes increasingly important. If you're part of this conversation, there's a chance you already have some level of exposure with a directly or indirectly through multiple holdings or vehicles.

That's what we're here to talk about today and how to think about this, as well as other potential mega cap IPOs on the horizon. I'm Luke Flemmer a head of private assets at MSCI with me as Nick Fusco, who co-founded PM Insights, now part of MSI. PM Insights is a specialist firm providing daily secondary market pricing and valuation data for private company securities.

Nick Fusco

Nick, great. Thank you so much, Luke. Yeah, I think this is what is making the moment so interesting right now. And the conversation is mattering more in the next 2 or 3 weeks than, than ever on space X.

Luke Flemmer

Absolutely. So let's start with a question that many investors, I think struggle to answer today, which is, do you know your total exposure to space X, not just through one fund, but across all of your private market allocations? Because you might be an LP in several venture funds, your total exposure may extend beyond any single fund statement, and that concentration can be difficult to see when the exposures are spread across multiple relationships.

Nick Fusco

Right. And I think that's what makes the problem quite difficult, because what we are receiving, you know, as investors from a from our GPs, could be different from one to the next. And we're not saying that any individual GP valuation mark might be wrong. But even if we could suggest that we do own the position, whether, you know, through one or several of these conduits that I mentioned earlier, we don't necessarily know the true valuation. And that's, I think, what MCI and the PM insights products that we really want to get to the bottom of understanding where bids, offers and trades are, you know, historically and then bringing that in the context of the IPO. So when we're approaching a company like Space X, which is a bit unprecedented in terms of size and the amount of the float, I think that we can find the story where secondary pricing actually matters, and it could be quite material.

Luke Flemmer

As you know, we talk a lot around the view of at the fund level and how can we more accurately model and predict at the fund level. We're doing things around daily nowcasting and, you know, tightening up that estimation of where the fund value is sitting. But when you start to deal with underlying companies of this magnitude and this impact, you know, the fund story doesn't tell the whole story. And I think that's where the PM insights, company level insights become, become increasingly important.

Nick Fusco

Right. And I think that's what the marriage is so excited for us and our team here as well, that we focus so much at the individual company or the asset level and bring that into play. we really do want to focus on what is occurring in the market when there is liquidity on any of these names prior to IPO, or even for names that might never IPO. But in particular case of space, I think we've had almost unprecedented levels of volumes traded and just bid offer activity.

And I think there's a lot that you can garner from that, that volume. Just, you know, how much is pent up on the bid side, the offer side and so forth. And then, you know, the dynamics prior to IPO get very interesting for investors to look at as well,

Luke Flemmer

So practically speaking. Tell us a little bit more about the kind of information that is available to investors through the work that your team does pre-IPO.

Like what kind of information is actually out there? Sure.

Nick Fusco

So we sit at the nexus of a broker dealer community banking community that provide their secondary market activity. So it's directly from, you know, these market making desks, these broker dealer desks that are supplying bids, offers and trades and quite a bit of ancillary detail around that as well.

So anything that we're not getting from a broker dealer desk, we're going to be sourcing directly from, let's say, government filings or the company websites themselves, the issuer websites. So for context, we're going to have a better understanding of the whole capital structure of these firms. So we know the old alphabet soup of how space evolved with their financing rounds.

We know every single tender offer the date. And in most of these cases, we're getting the share price of the primary rounds out to 6 to 8 decimal places. We're very, very precise. We can understand, you know, before we even saw it in the S-1, the amount of holdings, the individual classes and kind of who might be behind those actually has.

And if we can understand that context, that then brings us to what we observe in the secondary market itself. So this is where you're getting the bids, offers and trades with their appropriate volumes. You know we negate anything retail size. So it has to be anywhere from 1 million to 100 million in terms of did offer trade indication size.

And then from there you could start to look at it in a daily perspective akin to public markets. So we get a volatility. We're looking at bid offer ratios. We're looking at all the aspects of depth. How much is going into the creation of the price. And I will say in a world of AI and a good proportion of space being ex AI, none of that is AI driven.

You know, all of it is contextual information, the pricing and the valuation components, the revenue components that all go into the creation of the multiples or analytics. It's much more econometric in terms of how we approach that. So when we look at it and we compare it to maybe fund dynamics, you could see that that many funds might participate in a prior round, a tender offer, or even if they didn't, they may mark to that.

And then some will encourage using secondary market activity. Some will have their own in-house ways of recognizing, you know, how they want to approach that valuation. So we see quite a bit of disconnect in many in many firms and how they're their pricing. So we also provide that. So the full context of how as many of the 40 Act funds can observe the space as

well as the underlying, you know, trade flow and primary flow that could be observed in the market.

Luke Flemmer

Yeah. And that gets into, you know, one of one of my favorite topics, which is always how are we helping asset owners understand their fund exposures and think about concentration, risk performance and really thinking more dynamically about that portfolio.

So the ability to have, you know, this sort of bottom up or market driven price signal, you know, has a few different implications, I think, all of which were sort of working through the product suite at MSCI, what the first obvious one is, once you have a mark, you can propagate that through your level of allocation and figure out what is actually the value of that exposure. That starts to then give you a sense of concentration. You can start to then do sector or thematic analysis and say, gee, maybe I have a maybe have an overweight in the sector. Now when I when I realize where this valuation is actually sitting. And also I think as you allude to, it's interesting that you can then start to see, you know, other discrepancies or dispersions in my, in the manager marks that I'm seeing.

And that is also an interesting conversation. So I think this, you know, this kind of fundamental data is a is a very useful and different lens I think on, on, on performance.

Nick Fusco

Right. Absolutely. I think you hit on the main point, which is bringing that apples to apples comparison across the different holdings. You know, if we can bring a consistency of price, but also garnering the Intel around, how much lower is my lowest price relative to, let's say, a composite or how much higher might it be.

And and then is, is that something that is going to be telling what what's occurring next. You know, so we're not going to say any of these data are predictive. But a lot of the information tends to rhyme between secondary and primary markets. Absolutely.

Luke Flemmer

We're moving away from, you know, untreated, completely illiquid, unobservable and hence entirely estimated, you know, marks into a world where, you know, estimates are fair value and observable prices are going to need to start to coexist and form each other. And I think that's only going to accelerate in the coming years in the market. Right.

Nick Fusco

This is this is no longer a nice to have. We've had this in all the other for the most part, most other OTC asset classes. And now we have it here. It's almost a must have at this point.

Luke Flemmer

Terrific.

So once the IPO happens the portfolio work really accelerates rather than ends. Right. So for fund level clients it's triggering a set of decisions all at once. How does liquidity realization affect allocation targets. What is a large private to public transition due to the public private balance in the portfolio? Other denominator effects that come into play. And for LPs you hold space through multiple fund vehicles. You know those will all have different lockup structures, exit timelines, etc. so the complexity of managing that transition is real,

So. So, Nick is do you think space X is a singular event or does it signal something broader in the market? Sure.

Nick Fusco

To a certain extent it is. But also, No, I mean, you're looking at some number like 6.4 or more trillion, because that number seems to trade every day that we're capturing in the private company inside services from MSCI.

So when you have something that might go anywhere between 1.4 and 2 trillion, we don't have it understanding of where this IPO will actually land. You know that there are so many trillions behind it with the other potential IPOs to come. So I think that we're setting the stage, setting the table for what will occur in future IPOs, maybe not Luke with the same degree of fanfare or these names may not be as widely held.

So I think that also that context is extremely important for the asset owners and the holders of these securities, whether it's through many layers of conduit to really understand what the next generation or the pipeline is going to look like.

Luke Flemmer

we expect to see more of the of these, of this kind of activity. We expect to see, you know, hopefully more liquidity in the in these markets and more recirculation of capital. And I think the kinds of questions that we're trying to answer for folks now are going to be questions that they're going to need to sort of keep answering.

Nick Fusco

Right. That's a fair statement, right? I think that's very true because, you know, we've already hit on the idea that this is opening the IPO window. But if money isn't definitely just flowing public, private, private, public, it's going to go both ways with this reallocation. So as much as we're anticipating the IPO window is open and new firms will be coming to market for us, you know, that is so much money that was made in the private market.

There's no reason why that investor wouldn't want to reallocate with their success back to other private market names. And I will say when I mentioned that number about 6.4, which is by the end of the recording is probably 6.5 trillion, that that is so much, you know, dry powder or whatnot or whatever. We want to move back to these private names that will just encourage more growth in that.

In that end, that would be a really great to watch them in the future.

Luke Flemmer

IPOs I would say, right, I'm not a military expert, but I don't think wet powder is something you want.

Nick Fusco

Well, the yeah the thought there is really, you know, if someone is already allocated to a to a particular name and they're just going to have to keep on allocating additional capital to it to, to keep that moving. Sometimes it's, it's a zombie and sometimes it's not just to throw more interesting terminologies or allusions there. But I will I will say the commitment to private is not going away.

And the look and feel and the comfort in and around how these markets are supported, you know, you know, with all that that we do as a firm and many others, that that will just encourage a level of allocation that maybe hasn't been seen before.

Luke Flemmer

yeah, I think that's exactly right. And I think the, you know, there's no doubt that this capital recirculation is, is healthy and good for the industry. So hopefully we'll as you say, we'll see

more of that in the in the months to come. Let me close with the question that, you know, I think folks really want to be able to answer right now, which is what is your real exposure. Not fun by fund but in aggregate. And where does it sit relative to the allocation framework? If you can't answer today, I think that's the starting point of where folks need to be digging in, right?

Nick Fusco

Sure. I think that's the starting point of another conversation, because we want to get down to the asset level, but we also want to get an understanding of the sectoral level.

You know what? What is our exposure to infra AI, defense, transport. You know, any one of the many sectors that space X might fit in. We're going to have all these next few potential IPOs almost, almost go into uncharted territory with uncharted size. So I think we really want to start to question what is the methodology we're using for pricing, but also what is the methodology that we're using for categorization, reference data and things of that nature? Because I think space X is opening up Pandora's box in a way, and probably a very good way, so that we could start to better understand why it's so important to understand what these exposure levels are.

So that's really, really exciting here

Luke Flemmer

Yeah that's awesome Nick. Look I think these you know these kind of forcing functions always move the market forward right. And as you say this is an outsized event.

But in many ways it's defining a capability set that's going to that's going to persist thereafter and enable future capabilities and more of this kind of activity.

Well Nick, thanks so much. Really enjoyed the discussion and thanks everyone for watching.

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