

2010 BDO IPO OUTLOOK

EXECUTIVE SUMMARY



After reaching a seven-year high water mark in 2007, investor appetite for initial public offerings (IPOs) came to a screeching halt in 2008 as the country was faced with the greatest financial crisis since the Great Depression. Domestic IPO activity dropped more than 80 percent that year (from 272 IPOs in 2007) and the decline continued well into 2009, with only 14 offerings taking place in the first half of the year.

However, beginning last September, the U.S. IPO market – driven by the resurgent stock market – began to gain traction and the fourth quarter of 2009 was the most active quarter (32 IPOs) for domestic offerings in two years. Moreover, during Q4 an additional 66 companies filed paperwork with the Securities and Exchange Commission to prepare for an IPO. That figure exceeded the total number of filings (54) in the first nine months of the year.*

Will this fledgling recovery continue in 2010?

The signs for continued growth in U.S. IPO activity are very promising according to a new study by the Capital Markets Practice of BDO, one of the nation's leading accounting and consulting organizations. *The 2010 BDO*

IPO Outlook survey – conducted in December 2009 – examined the opinions of 100 capital markets executives at leading investment banks regarding the market for initial public offerings in the United States in the coming year.

► FORECASTING GROWTH

The BDO IPO Outlook reveals the capital markets community to be bullish on the U.S. IPO market for 2010. More than two-thirds (68%) believe IPO activity will increase this year compared to 2009, with almost a quarter (24%) describing the increase as substantial. Only five percent of the survey participants expect a decrease in IPOs in 2010, while 27 percent forecast activity as flat with 2009.

BDO CAPITAL MARKETS PRACTICE

BDO is a valued business advisor to businesses making public securities offerings. The firm works with a wide variety of clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on a myriad of accounting, tax and other financial issues.

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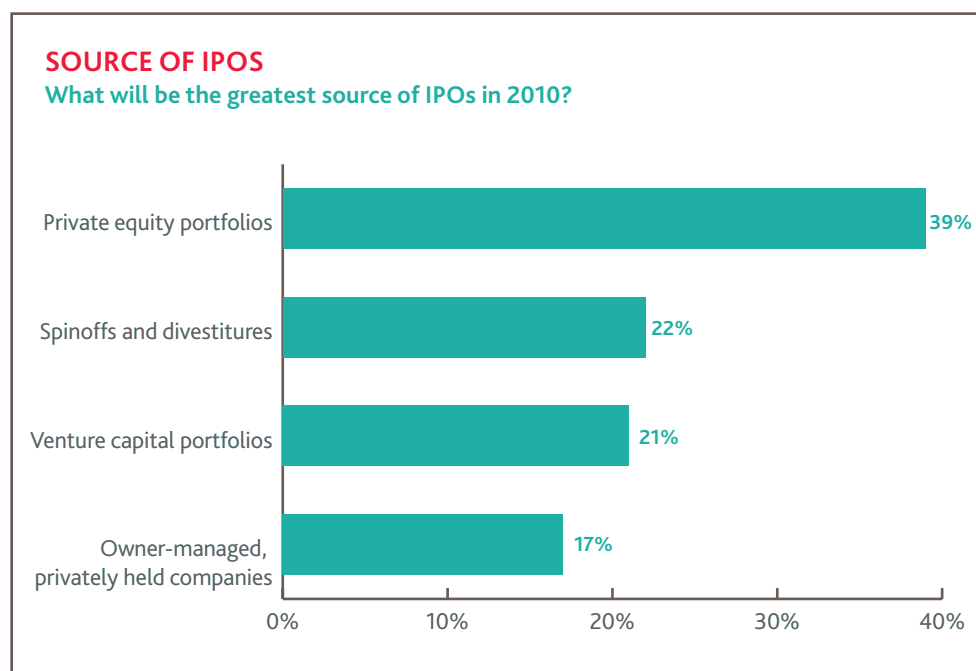
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“As advisors to entrepreneurial businesses seeking to tap the public markets, we created *The BDO IPO Outlook* to serve as a forecast for initial public offerings in the United States. Though still well below 2007 “pre-crisis” levels, in predicting an increase of 25 percent for U.S. IPOs in 2010, this inaugural survey reveals broad-based optimism among the capital markets community that offering activity in the new year will build on the momentum established this past fall.”

CHRISTOPHER TOWER, Partner in the BDO Capital Markets Practice.



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Of the two-thirds forecasting an increase in IPO activity in 2010, almost half (46%) expect activity to peak in the third quarter of 2010, while a third (33%) feel the second quarter of the year would set the high water mark for activity. Q1 (6%) and Q4 (15%) are less likely to see a peak in activity.

Overall, bankers predict a 25 percent increase in the number of U.S. IPOs in 2010 and they expect these offerings to average just over \$400 million (\$409M) in size. This projects to a 45 percent increase in total U.S. IPO proceeds (\$32 billion compared to \$22 billion) based on 2009 IPO data.*

When asked what will be the greatest source of IPOs in 2010, thirty-nine percent of these capital market executives cite private equity portfolios. Spinoffs and divestitures (22%),

venture capital portfolios (21%) and owner-managed, privately-held businesses (17%) are the other sources identified by the bankers.

In terms of the U.S. exchange that will see the most IPO activity in 2010, three-quarters (76%) predict the NASDAQ will capture the majority of the offerings versus 24 percent for the New York Stock Exchange.

Capital markets executives at the very largest banks or “**bulge bracket**” firms mirror the responses of the total capital markets community on most topics. However, they are even more bullish about IPO activity, predicting a 37.7 percent year-over-year increase, and are even more likely to view private equity portfolios (62%) as the greatest source of IPOs in 2010.

► **SUCCESS FACTORS**

On average bankers think businesses will need to offer 38 percent ownership in order to achieve a successful IPO this year.

When asked what type of offering attributes the investment community will value the most in the coming year, more than a third of bankers (38%) cite long-term growth potential. Other attributes that will be valued in 2010 are profitability (28%) and stable cash-flow (25%). Some bankers (9%) see the strength of a company's industry vertical as the most valuable attribute of an IPO in 2010.

Not surprisingly, the performance of the stock market is viewed as the most important factor in determining the health of the IPO market. The rebound of the stock market (44%) and improved investor confidence (25%) are viewed as the main reasons for the increase in IPO activity during the second half of 2009. By the same token, almost half (48%) of the investment bankers identify poor stock market performance as the greatest threat to IPOs going forward. Constrained bank lending is viewed as the greatest threat by almost a third (30%) of the participants.

On average, bankers feel IPOs will need to achieve a 12 percent one-day and 20 percent six-month, after-market return to be considered successful in 2010.

When discussing follow-up offerings, more than three-quarters (81%) of the bankers view a secondary offering as an important factor in a business's IPO decision. Thirty-two percent believe a secondary offering is “very important” versus 49 percent who say it is only “somewhat important.” Nineteen percent think a secondary offering has no importance in an IPO decision. Of those who view follow-up, secondary offerings as an important

* Renaissance Capital is the source of all historical data related to number and size of U.S. IPOs.

component in an IPO decision, a majority (58%) believe the second offering should take place at least a year after the initial offering, but another 41 percent feel it can take place in as little as six months after the IPO.

►TECH, ENERGY, BIOTECH AND HEALTHCARE TO LEAD IPO GROWTH

In terms of which industries are likely to experience an increase in initial offerings in 2010, the investment bankers clearly expect the technology, energy, biotech and healthcare verticals to be the likely winners in the coming year (see chart below). No other industry is predicted to achieve an increase in IPOs by a majority of the survey participants.

Technology businesses accounted for more IPOs than any other industry in 2009 and capital markets executives believe this trend will continue in 2010. Online networking companies may take center stage, with social networking site Facebook (which has yet to file for an IPO) generating the most buzz. Others in the category are Twitter, the micro-blogging site, and LinkedIn, the business networking site. Some other notable tech businesses considered as potential IPO candidates are Calix Networks (communications systems/software), Telegent (semiconductor/chips), Go-Daddy (domain register), QuinStreet and ReachLocal (Web advertisers).

A majority (58%) of the capital markets community believe **alternative energy**, or green technologies, will have a significant impact on **energy** related IPOs this year. One of the biggest hits of 2009 was A123 Systems, which makes lithium-ion batteries for electrical and hybrid cars. The company, which received federal money, benefited from agreements it has to develop battery systems for BMW, General Motors and Chrysler, among others. Potential IPOs for 2010 from this category include Solyndra (solar panels), Tesla (electric cars) and Silver Spring Networks (smart grid technology for utilities).

With Congress striving to restructure the health system and expand health-insurance coverage, **biotech** and **healthcare** companies with products serving unmet needs will enjoy a big advantage over those pushing improvements to existing treatments.

“The capital markets community forecasts strong growth in U.S. IPO activity in 2010, but some industry sectors are clearly seen as stronger than others by the bankers. When you consider the buzz surrounding rumored offerings of online networking businesses like Facebook, Twitter and LinkedIn, and the emphasis the current administration has placed on developing alternative energy it makes sense that bankers expect the technology and energy sectors to lead the way in IPOs in the coming year.”

JAY DUKE, Partner in the BDO Capital Markets Practice.

2010 U.S. IPO ACTIVITY BY INDUSTRY

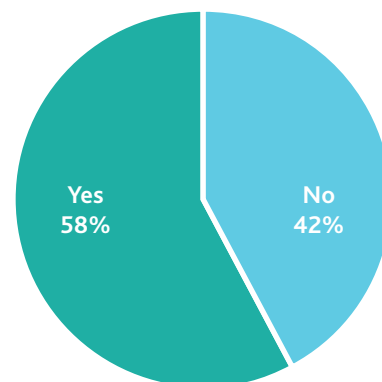
Do you anticipate IPO activity in the following verticals will increase, decrease or stay about the same in 2010?

Industry	Increase	Flat	Decrease	DNR
Technology	83%	14%	3%	–
Energy/Natural Resources	78%	15%	7%	–
Biotech	72%	25%	2%	1%
Healthcare	62%	21%	15%	2%
Financial	46%	35%	17%	2%
Media/Telecom	35%	40%	21%	4%
Real Estate	37%	25%	37%	1%
Industrial/Manufacturing	35%	40%	25%	–
Agriculture	31%	51%	11%	7%
Consumer/Retail	23%	43%	34%	–

Investors have strong interest in this sector as demonstrated by the ability of public companies, such as Human Genome Sciences, to conduct successful new offerings raising hundreds of millions. As a result, the investment community is starting to look for value in private companies that they see as comparable to listed ones. Some likely IPO candidates from this vertical are Codexis (enzymes for cellulosic ethanol), SurgiVision (medical device maker), AVEO Pharmaceuticals (biopharma/cancer therapies) and Aldagen (biopharma/ regenerative cell therapies).

GREEN IN MORE WAYS THAN ONE

Do you feel that alternative energy, or green technologies, will have a significant impact on energy-related IPOs in 2010?



► ASIA RISING

Bankers believe foreign businesses will play a bigger role in the U.S. initial public offering (IPO) market in 2010. More than half (52%) of the bankers predict that foreign businesses will represent an increased percentage of IPOs on U.S. exchanges in 2010, compared to just over a quarter (28%) who see it remaining stable and a fifth (20%) who anticipate a decrease.

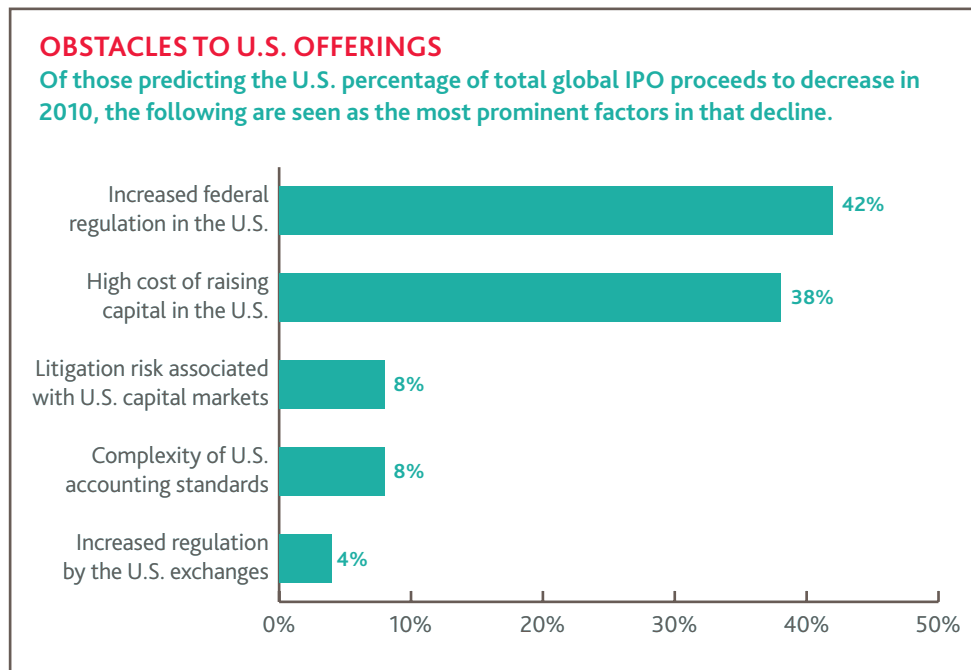
When asked what foreign region is likely to spawn the most U.S. IPOs in 2010, almost three-quarters (73%) of bankers cite Asia. Central and South America (11%) finish a distant second, followed by Europe (9%).

Forty-four percent of capital markets executives believe that U.S. IPOs will represent an increased percentage of total global IPO proceeds in 2010, while 30 percent expect the U.S. share of IPO proceeds to stay about the same. One quarter (25%) of the bankers think the percentage will decrease. Of those who believe that the percentage of global IPO proceeds being generated by U.S. exchanges will shrink, increased federal regulation (42%) and the high cost of raising capital in the U.S. (38%) are viewed as having the greatest impact on deterring businesses from conducting their offerings in the U.S.

In terms of IPOs taking place on foreign exchanges, Asia was the most popular region of the investment bankers. More than a third (36%) anticipate that the Hong Kong exchange will be the most popular for foreign IPOs in 2010, while a quarter (27%) cite the Shanghai exchange. London (16%) finished third.

“Clearly, the capital markets community expects foreign-based businesses to play a larger role in terms of offerings on U.S. exchanges in 2010. Asia, as the world’s fastest growing region, is specifically seen as the greatest source for this IPO activity.”

LEE GRAUL, Partner in the BDO Capital Markets Practice.



THE BDO IPO OUTLOOK SURVEY is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly to capital markets executives, using a telephone survey conducted within a scientifically-developed, pure random sample of the nation’s leading investment banks.

ABOUT BDO

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