

2014 BDO IPO HALFTIME REPORT



I-BANKERS FORECAST U.S. IPOs MAINTAINING TORRID PACE DURING REMAINDER OF 2014 WITH ALIBABA OFFERING BOOSTING PROCEEDS

By any measurement, through six months, 2014 is shaping up as the best year for initial public offerings on U.S. exchanges since the turn of the century with offerings (+ 58%), proceeds (+ 52%) and filings (+ 88%) up dramatically year-over-year from a very strong 2013.*

According to the [2014 BDO IPO Halftime Report](#) survey, which examines the opinions of 100 capital markets executives at leading investment banks, initial public offerings in the United States are likely to maintain their torrid pace during the second half of the year.

The capital markets community is closely divided when asked to forecast the market for initial public offerings in the U.S. during the remainder of 2014. More than one-third (38%) anticipate the pace of U.S. IPO activity

will increase further in the second half of 2014, while a similar proportion (35%) believe activity will be flat with the first half of the year. Just over a quarter (27%) of the bankers are predicting a decrease in deals. Overall, capital market executives are predicting a 1 percent increase in the number of U.S. IPOs during the second half of the year. With the size of the average IPO in the second half estimated to be \$243 million, this forecast puts the U.S. IPO market on pace for its best year since 2000.

When asked to identify the main impetus behind the increase in U.S. IPO activity during the first half of 2014, the investment bankers were evenly divided among four key drivers – private equity (PE) and venture capital (VC) firms needing to cash in profits (27%), positive IPO performance encouraging

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“The U.S. IPO market had a very strong first half to the year, with both the number of offerings and total proceeds up significantly from a strong 2013 performance. Although there is no definitive forecast for further growth, based on our survey, a majority (73%) of those in the capital markets community believe the U.S. IPO market will at least maintain the current pace of offerings during the second half of 2014. This alone would make 2014 the best year for IPOs – both in offerings and proceeds – since 2000.”

– Wendy Hambleton, a Partner in the Capital Markets Practice at BDO USA

more businesses to move forward with offerings (26%), low interest rates increasing investor demand for higher yielding assets (24%) and increased confidence in the U.S. economy (23%).

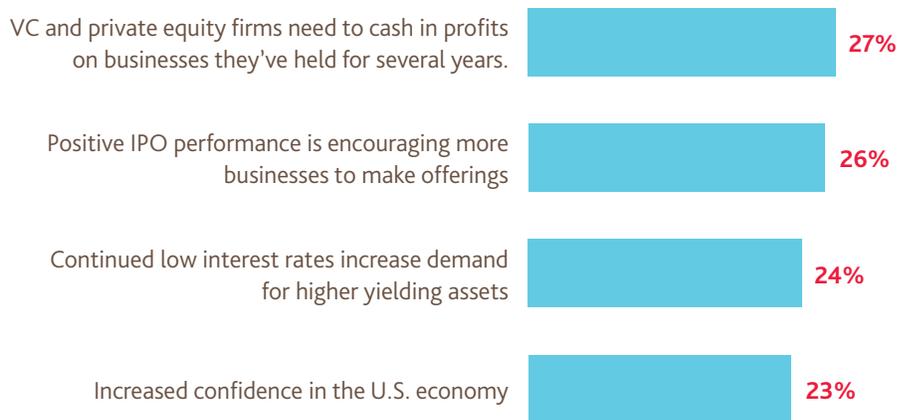
Although U.S. IPO activity is up significantly in 2014, the size of the average IPO on U.S. exchanges has actually decreased somewhat compared to 2013. Many of the bankers attribute the smaller deal sizes to the absence of a mega-deal, such as Facebook or Visa, to lift the average (43%), valuation pressures forcing offering businesses to cut prices (25%) and optimism about the economy making smaller deals more attractive (19%). Smaller numbers of bankers attribute the decreased size to the JOBS Act encouraging smaller businesses to go public (9%).

When asked what will be the greatest source of IPOs in the second half of the year, most capital market executives cite either private equity (44%) or venture capital (26%) portfolios. Owner-managed, privately-held businesses (20%) and spinoffs and divestitures (10%) are the other sources identified by the bankers.

▶ IPO THREATS

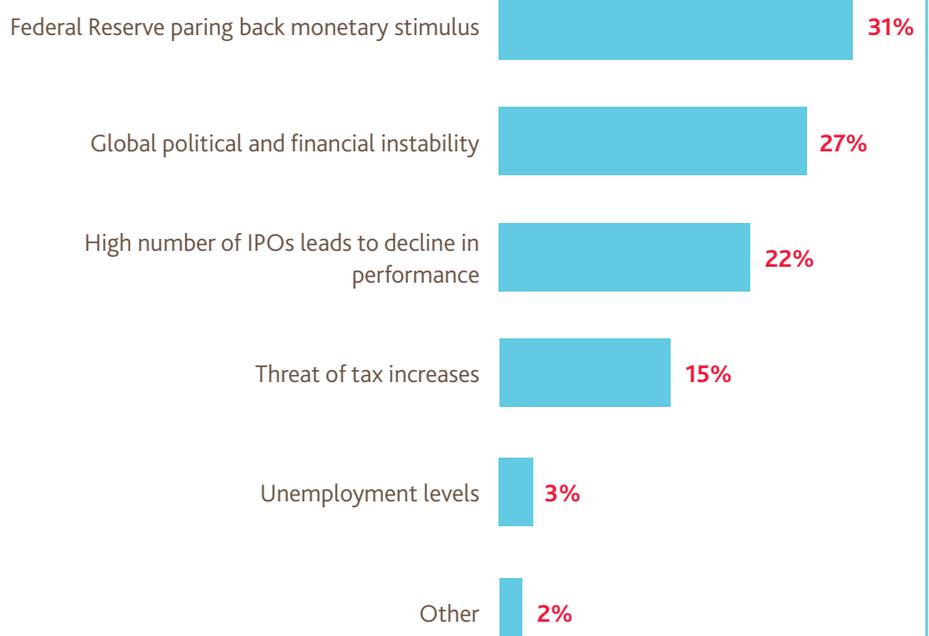
In reflecting upon the greatest threat to a healthy U.S. IPO market during the remainder of 2014, almost one-third (31%) of the I-bankers cite the Federal Reserve paring back monetary stimulus, while more than one-quarter (27%) identify global political and financial instability. Other threats cited were the high number of IPOs leading to a decline in performance (22%), the threat of tax increases (15%), and high unemployment levels (3%).

The number of IPOs on U.S. exchanges has increased dramatically in 2014. What one factor do you feel has had the greatest impact on this increase?



Source: 2014 BDO IPO HALFTIME REPORT

What do you consider to be the greatest threat to a healthy U.S. IPO market during the remainder of 2014?



Source: 2014 BDO IPO HALFTIME REPORT

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“From an industry perspective, the breadth of the U.S. IPO market in 2014 has been impressive, with four different industry sectors contributing double digits in offerings during the first half of the year. The healthcare vertical, which has benefited from a boom in biotech, has led all industries in offerings, while the energy and technology sectors have raised the most proceeds. Capital markets executives are forecasting these verticals to continue to set the pace during the remainder of the year.”

– Lee Graul, a Director in the Capital Markets Practice of BDO USA

► INDUSTRY FORECAST

For six of the past eight years the technology industry has led all sectors in bringing offerings to market. During that time, many would argue that the health of the IPO market was tightly linked to the offerings coming from the technology sector. However, in 2013 and thus far in 2014, the healthcare sector has led all industries in the number of U.S. IPOs.

Moving forward, investment bankers predict more healthcare offerings (62%) during the second half of the year and an even greater proportion forecast an increase in IPOs from the technology (71%) and energy (66%) sectors. Biotech (54%) is the only other vertical where a majority anticipate an increase in deals during the remainder of the year (see full chart to the right).

► GLOBAL MARKET SHARE

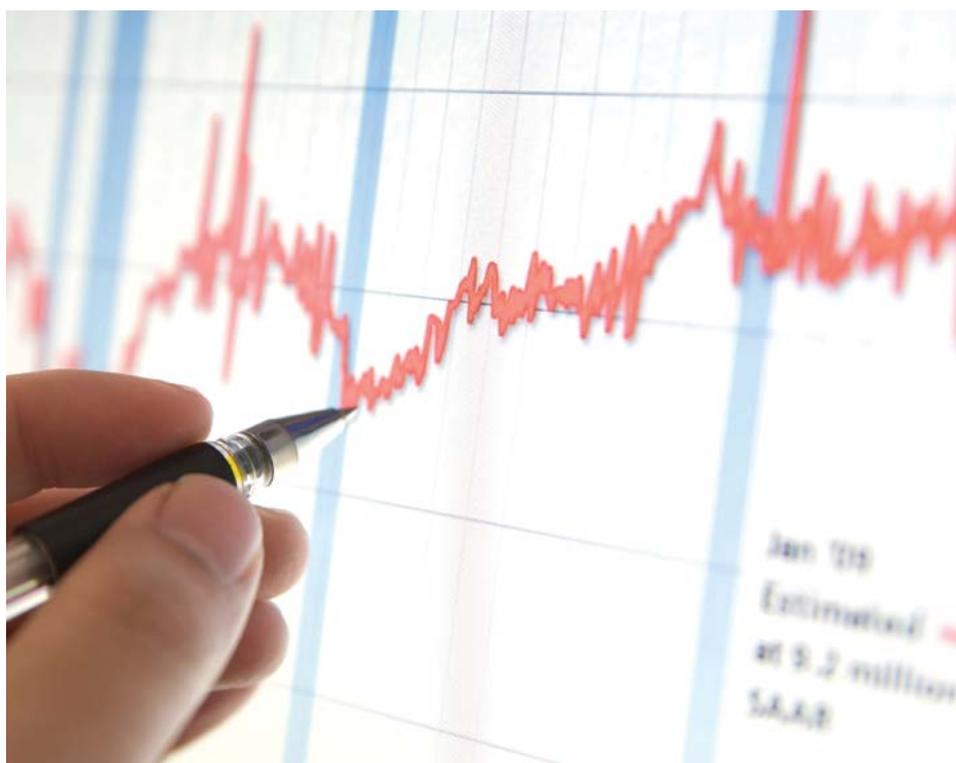
Through the first six months of 2014, U.S. exchanges have led all countries in proceeds from initial public offerings. When asked to identify the main reason for the U.S. leadership position in global IPO proceeds, large proportions of the bankers emphasized U.S. exchanges benefitting from private equity and VC backed offerings (43%), the improving U.S. macro-economy (25%) and increased investor cash flowing into stock-focused mutual funds (23%). Sluggish IPO activity in China (6%) was cited by a small minority.

Only one-third (34%) of investment bankers anticipate U.S. exchanges increasing their current share of the global IPO pie during the second half of the year. Approximately half (49%) predict the U.S. will maintain its current share of global proceeds during the remainder of the year, while 16 percent believe the U.S. share will decline in the second half of 2014.

Proportions of Capital Markets Executives expecting IPO activity to increase, remain stable or decrease in specific industries during remainder of 2014.

Industry	Increase	Flat	Decrease
Technology	71%	26%	3%
Energy/Natural Resources	66%	26%	8%
Healthcare	62%	25%	13%
Biotech	54%	34%	12%
Real Estate	41%	40%	19%
Media/Telecom	38%	53%	9%
Industrial/Manufacturing	33%	44%	23%
Financial	30%	48%	22%
Consumer/Retail	18%	42%	40%

Source: 2014 BDO IPO HALFTIME REPORT



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▶ THE ALIBABA EFFECT

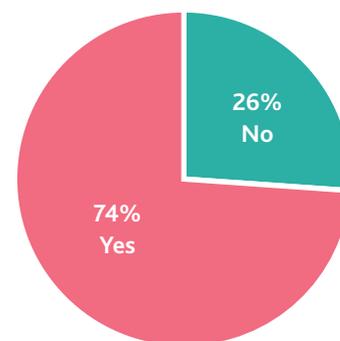
After a two-year hiatus, China-based IPOs have begun to return to U.S. exchanges during the past year and about half (51%) of capital markets executives believe there will be a further increase in this trend during the second half of 2014. The other half of the bankers are evenly divided among those who anticipate a decrease (25%) in China-based IPOs and those that believe China-based activity will be flat (24%) with the first half of the year.

If there is one event that could possibly accelerate the movement of China-based offerings to U.S. exchanges, it may be the much anticipated IPO of Chinese Internet giant, Alibaba, expected to price later this summer.

Better than three-quarters (77%) of capital markets executives at leading investment banks believe the Alibaba IPO will be well received by U.S. investors and a similar percentage (74%) of the bankers predict it will be the largest IPO of all-time.

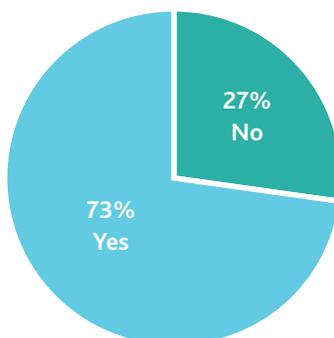
More than two-thirds (73%) of I-bankers believe the performance of the Alibaba IPO will have a major impact on the number of China-based businesses deciding to pursue offerings on U.S. exchanges. Conversely, less than half (43%) predict the Alibaba offering will have a major impact on U.S. businesses deciding to move ahead with an offering.

Chinese Internet giant, Alibaba, is widely expected to price its much anticipated U.S. IPO in late summer. Do you believe the Alibaba offering will be the largest IPO of all-time – greater than the \$19.2 billion raised by the Agricultural Bank of China in 2010?



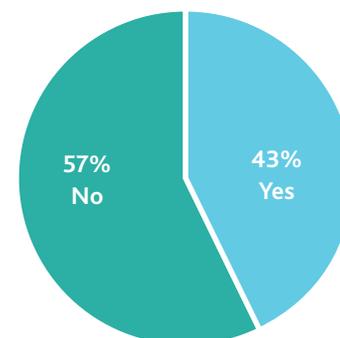
Source: 2014 BDO IPO HALFTIME REPORT

Do you believe the performance of the Alibaba IPO will have a major impact on the number of China-based businesses pursuing offerings on U.S. exchanges?



Source: 2014 BDO IPO HALFTIME REPORT

Do you believe the performance of the Alibaba IPO will have a major impact on U.S. businesses deciding to pursue an IPO during the remainder of the year?



Source: 2014 BDO IPO HALFTIME REPORT

“Alibaba is the largest e-commerce company in the world. It processed close to \$250 billion in online transactions in 2013, that’s well more than Amazon and eBay combined. Based on our survey, the investment banking community is clearly bullish on Alibaba’s upcoming IPO, with approximately three-quarters anticipating this offering eclipsing the Agricultural Bank of China’s record offering (\$19.2 billion) in 2010. They also see a clear connection between the performance of the Alibaba IPO and future offerings from China-based businesses on U.S. exchanges.”

– Brian Eccleston, a Partner in the Capital Markets Practice of BDO USA

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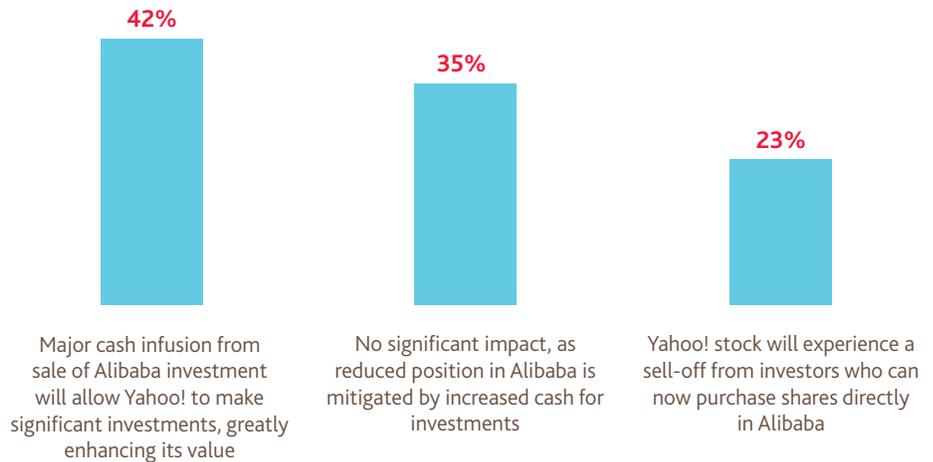
There has been a good deal of media coverage focused on how the Alibaba IPO may impact the future of another high profile internet business. Yahoo!, which has a 24 percent stake in Alibaba, will be required to sell 40 percent of its shares in the Chinese online giant when it goes public. The capital markets community had various opinions on how this sale will impact Yahoo!; however, the consensus of the bankers (77%) is that the impact on Yahoo! will most likely be positive or neutral.

Forty-two percent of the bankers feel the major cash infusion from the sale of the Alibaba investment will allow Yahoo! to make significant investments that can greatly enhance its value, while a much smaller proportion (23%) believe Yahoo! stock may experience a sell-off from investors who can now purchase stock directly in Alibaba. Approximately one-third (35%) of the bankers see no significant impact on Yahoo!, as the reduced position in Alibaba is mitigated by the increased cash for investments.

Through six months, a mega-deal has been the only thing lacking from a very impressive U.S. IPO market. The Alibaba offering should more than address this omission shortly. Should the capital markets community's forecast for the Alibaba IPO prove accurate, the U.S. IPO market could approach \$80 billion in proceeds in 2014, a level last visited in 2000 when U.S. IPOs reached their all-time high of \$96.9 billion in proceeds.

Yahoo! More Likely to Benefit from Alibaba IPO

Yahoo!, which has a 24 percent stake in Alibaba, will be required to sell 40 percent of its shares in the Chinese online giant when it goes public. What do you feel is the likely impact of this sale on Yahoo!?



Source: 2014 BDO IPO HALFTIME REPORT

ABOUT THE SURVEY

The *BDO IPO Halftime Report* is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, on behalf of the Capital Markets Practice of BDO USA. Executive interviewers spoke directly to 100 capital markets executives at leading investment banks regarding the market for initial public offerings during the second half of 2014. The survey was conducted in June 2014 within a scientifically developed, pure random sample of the nation's leading investment banks.

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