

# 2014 BDO IPO OUTLOOK



**B**y any measurement, 2013 was an exceptionally strong year for initial public offerings (IPOs) on U.S. exchanges with virtually every statistical category – offerings (+73%), proceeds (+29%) and filings (+83%) – up significantly from 2012. Moreover, IPOs delivered an overall average return of close to 40 percent last year, the best performance of this century.\*

According to the **2014 BDO IPO Outlook**, BDO USA's annual survey of capital markets executives at leading investment banks, there were multiple catalysts for last year's strong showing. When asked to identify the most

prominent factor behind the increase in IPO activity, the bankers are fairly evenly divided among three factors – continued low interest rates increasing investor demand for higher yielding assets (27%), increased confidence in the U.S. economy (26%) and positive IPO performance encouraging more businesses to make offerings (24%). Smaller proportions cite increased investor cash flow into stock focused mutual funds (12%) and the JOBS Act encouraging emerging businesses to pursue offerings (8%).

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“In 2013, the U.S. IPO market experienced a renaissance with both total offerings and proceeds raised reaching the highest levels since 2000. Perhaps most impressive is that this performance was accomplished without the benefit of a Visa, GM, Facebook or other major offering to pump up proceed levels. Investor optimism has finally rebounded from the financial crisis and the investment banking community is predicting even more deals and higher proceeds in 2014.”

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

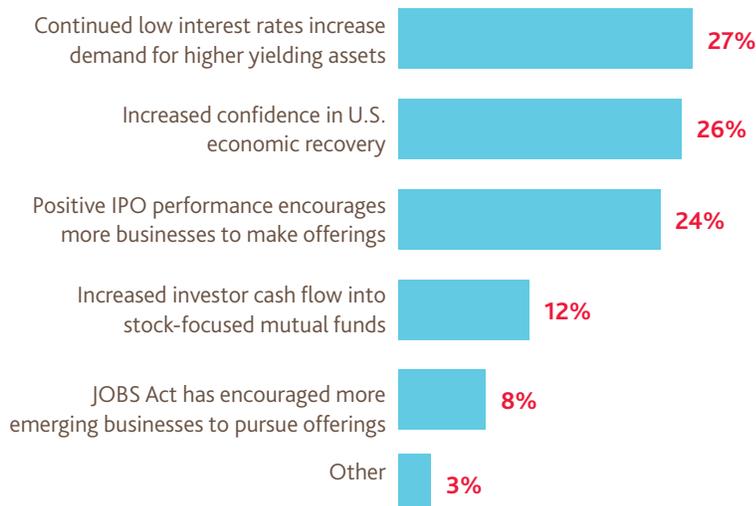
## ▶ FAVORABLE FORECAST FOR 2014

Moving forward, the capital markets community is projecting continued growth in IPOs on U.S. exchanges in 2014. Sixty-three percent predict an increase in U.S. IPOs in the coming year, while just over a quarter (27%) forecast activity as flat compared with 2013. Only 9 percent expect a decrease in offerings on domestic exchanges. Overall, bankers predict a 9 percent increase in the number of U.S. IPOs in 2014. They anticipate these offerings will average \$273 million, which projects to \$66 billion in total IPO proceeds on U.S. exchanges.

In terms of return on investment, the investment banking community is predicting one-day returns of 15 percent and overall returns of 21 percent for the average IPO this coming year. Although this is considerably below the 2013 levels, these projections represent a healthy forecast for most years.

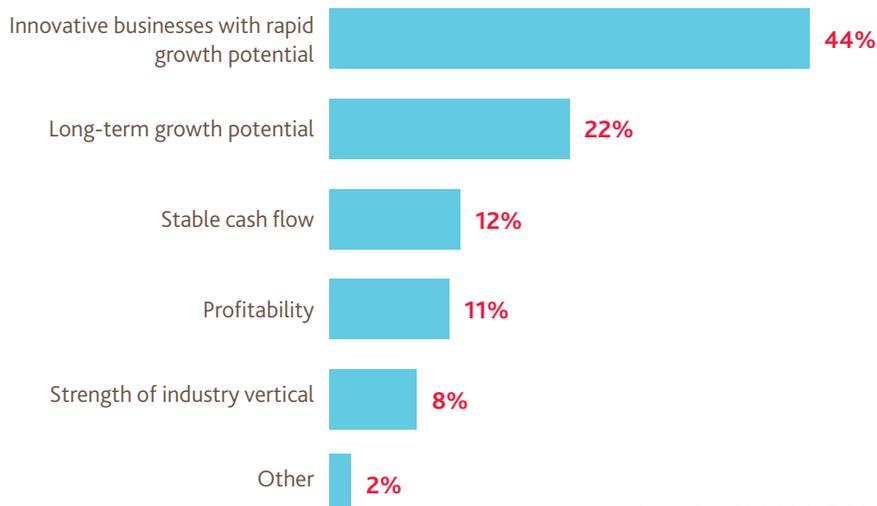
When asked what offering attributes will be most valued by the investment community in 2014, 44 percent cite innovative businesses with rapid growth potential. Long-term growth potential (22%), stable cash flow (12%), profitability (11%) and strength of industry vertical (8%) are cited by smaller proportions of participants.

### What factor do you believe had the greatest impact on the dramatic increase in IPO activity on U.S. exchanges in 2013?



Source: 2014 BDO IPO OUTLOOK

### What attribute of potential offerings will be most valued by the investment community in 2014?



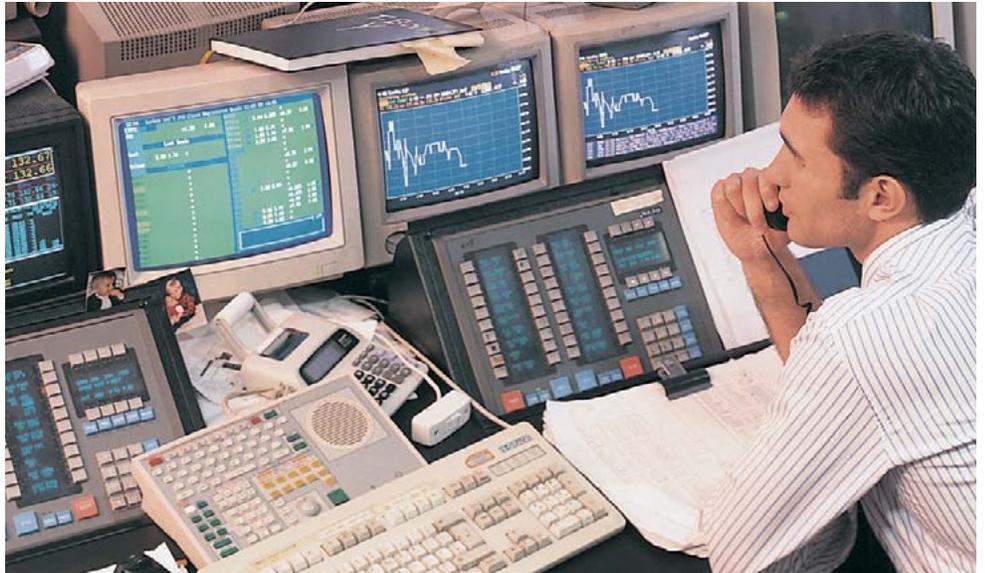
Source: 2014 BDO IPO OUTLOOK

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## ▶ SOURCE OF IPOs

There were 70 private equity (PE) backed offerings in 2013, the most since 2005 (71) and a jump of more than 50 percent from 2012. These PE offerings represented 45 percent of all IPO proceeds on U.S. exchanges last year.

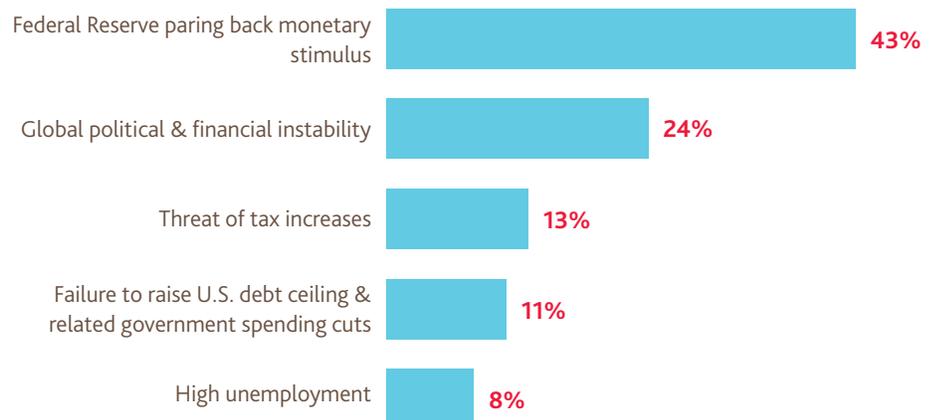
Capital markets executives believe PE firms will continue to play a central role in the U.S. IPO market in 2014, with 43 percent citing private equity portfolios as the greatest source of IPOs in the coming year. Owner managed privately held businesses (23%), venture capital portfolios (22%), and spinoffs and divestitures (12%) are the other sources identified by the bankers.



## ▶ IPO THREATS

When asked to comment upon the greatest threat to a healthy U.S. IPO market in 2014, 43 percent of the I-bankers cite the Federal Reserve paring back monetary stimulus, while close to one quarter (24%) identify global political and financial instability. Threat of tax increases (13%), failure to raise the U.S. debt ceiling and related government spending cuts (11%), as well as high unemployment (8%) are identified as threats by smaller minorities of the participants.

### What do you consider to be the greatest threat to a healthy U.S. IPO market in 2014?



Source: 2014 BDO IPO OUTLOOK

“Perhaps the most powerful evidence of the positive climate for IPOs is that the capital markets community identified the Federal Reserve’s expected tapering of monetary stimulus as the greatest threat to the current market. When you consider that the Fed has communicated its intentions for months and that any tapering will surely be gradual in nature, the market should be able to absorb any change with minimal volatility. Global political and financial instability – identified as the greatest threat by a quarter of the bankers – is much more difficult to predict and, in my opinion, could be as much of a threat to the 2014 IPO market as a decrease in monetary stimulus.”

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

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## ▶ INDUSTRIES

The strength of last year's IPO market was the wide breadth of industries represented among the offerings. Healthcare (54) led all industries in U.S. IPOs in 2013, followed closely by the financial and technology (45 each) sectors. Energy IPOs (22) delivered \$10.7 billion in proceeds, the most of any sector.

This was the first time in five years and only the second time in eight years that the technology sector did not lead in offerings. The only other year tech didn't lead was 2008, the IPO nadir due to the financial crisis.

In terms of how individual industries will fare in 2014, almost three quarters (73%) of those in the investment banking community are predicting an increase in offerings from the technology industry. Lesser majorities forecast increases in offerings in the energy (59%), biotech (58%) and healthcare (54%) verticals. Given the breadth of industries that contributed to the robust growth in the 2013 U.S. IPO market, no other industry is predicted to achieve an increase in IPOs by a majority of the survey participants. (see full chart to the right).

## ▶ FOREIGN-BASED IPOs

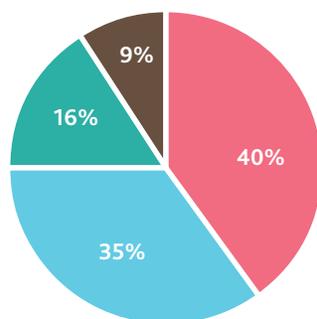
Overall, at least one half (52%) of capital markets executives believe the percentage of foreign-based IPOs on U.S. exchanges will increase in the coming year, but just 7 percent describe the increase as substantial. More than a third (37%) expect that this percentage will remain flat with 2013 and only 10 percent predict a decrease in foreign-based offerings.

A majority of the bankers (60%) cite Asia as the geographic location most likely to spawn foreign-based IPOs on U.S. exchanges in 2014. Latin America (16%), Europe (13%), Eastern Europe/Russia (9%) and the Middle East (2%) were other regions cited.

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

| Industry                 | Increase | Flat | Decrease |
|--------------------------|----------|------|----------|
| Technology               | 73%      | 22%  | 5%       |
| Energy/Natural Resources | 59%      | 30%  | 11%      |
| Biotech                  | 58%      | 34%  | 8%       |
| Healthcare               | 54%      | 38%  | 8%       |
| Financial                | 40%      | 40%  | 20%      |
| Real Estate              | 38%      | 36%  | 26%      |
| Media/Telecom            | 34%      | 47%  | 8%       |
| Industrial/Manufacturing | 30%      | 53%  | 17%      |
| Consumer/Retail          | 22%      | 52%  | 26%      |

What issue will have the greatest impact on **INCREASING** the number of China-based IPOs on U.S. exchanges? (Asked only to those predicting increase)



- China's improved commitment to meet U.S. accounting and governance expectations in the wake of past scandals
- Chinese regulators agreeing to provide the U.S. with more access to documents of Chinese audit firms
- Increased investor appetite for risk as U.S. markets approach all-time high
- Chinese businesses, willingness to discount share pricing to offset perception of higher risk associated with Chinese IPO

Source: 2014 BDO IPO OUTLOOK

## ▶ CHINA

A majority (58%) of the capital markets community believes the number of U.S. IPOs from China-based businesses will increase in 2014. When asked to identify the most prominent factor for an increase in China-based offerings on U.S. exchanges (of those expecting an increase), 40 percent cite a perceived improved commitment by the Chinese to meet U.S. accounting and governance expectations, while more than a third (35%) cite Chinese regulators agreeing to provide the U.S. with more access to documents at Chinese audit firms. Lower proportions identify an increased investor appetite for risk as U.S. markets approach all-time highs (16%) and Chinese businesses, willingness to discount share pricing to offset the perception of higher risk associated with a Chinese IPO (9%).

Not all bankers are sold on more U.S. listings from China. One quarter (25%) of the bankers think the number of U.S. IPOs from China-based businesses will stay about the same as 2013, while 16 percent expect the number to decrease.

When asked the main reason why they predict no increase in China-based offerings on U.S. exchanges (of those forecasting flat or fewer offerings), the bankers cite three main factors. Forty-two percent say investors have not forgotten the accounting scandals at Chinese businesses of just a few years ago, while 30 percent say Chinese businesses will continue to avoid U.S. regulations. More than one-quarter (28%) believe the U.S. appetite for Chinese offerings will be limited to select Internet/technology IPOs.

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Given the previous accounting scandals at U.S.-listed Chinese businesses, 92 percent of investment bankers say they subject China-based offerings to a higher level of due diligence when vetting potential offerings. When asked where they focus their increased due diligence of these offerings, 45 percent identify internal controls over financial reporting. Corporate governance structure (25%), business risks and how they are addressed (19%) and product/sales trends (11%) were the other areas cited by the bankers.

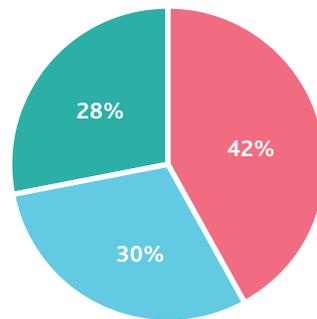
### ▶ U.S. SHARE OF GLOBAL PROCEEDS

The U.S. led all countries in IPO proceeds in 2013, generating more than one-third of total global proceeds. When asked what they thought was the chief factor driving this trend, a majority (52%) of the capital markets community identified increased investor confidence in the U.S. economic recovery. Increased investor cash in stock-focused mutual funds (24%) and slow growth in China (18%) are the other factors cited by a meaningful proportion of the bankers.

Moving forward, 41 percent of I-bankers believe U.S. exchanges will continue to increase their share of global IPO proceeds during the coming year, although none of the bankers describe the increase as substantial. A slightly larger proportion (45%) predict the U.S. cut of the global pie will remain about the same as 2013, while 14 percent anticipate the U.S. share declining in 2014.

In terms of which foreign exchanges will be most popular for IPOs in 2014, Hong Kong (27%), Shanghai (19%), Euronext (18%) and London (17%) were the main exchanges cited by the bankers.

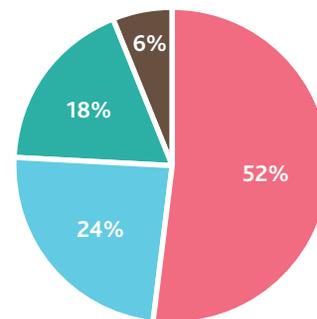
#### Why will there be no increase in Chinese IPOs on U.S. exchanges? (Asked only to those predicting flat or fewer offerings from China)



- Investors have not forgotten the accounting scandals at Chinese businesses of a few years ago
- Chinese businesses want to avoid U.S. regulations
- U.S. appetite for Chinese offerings will be limited to select Internet/technology offerings

Source: 2014 BDO IPO OUTLOOK

#### What one factor do you believe had the greatest impact on the U.S. exchanges maintaining their leadership in total global IPO proceeds in 2013?



- Increased confidence in U.S. economic recovery
- Increased investor cash flowing into U.S. stock-focused mutual funds
- Slow growth in China
- Chinese IPOs returning to U.S. exchanges

Source: 2014 BDO IPO OUTLOOK

“In 2013, after a two-year hiatus, several Chinese-based businesses conducted successful IPOs on U.S. exchanges. A majority of capital markets executives are forecasting more of these offerings in 2014 due to the perception that Chinese regulators and potential offering companies are more willing to meet U.S. governance standards and accounting regulations. While we hope this perception is accurate, we would caution investors to tread carefully due to the previous accounting scandals at U.S.-listed Chinese businesses that led to the recent hiatus in Chinese offerings.”

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

#### ABOUT THE SURVEY

The *BDO IPO Outlook* 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 in the United States during the coming year. The survey was conducted within a scientifically developed, pure random sample of the nation's leading investment banks.



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