

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

INITIAL OFFERINGS



U.S. IPO ACTIVITY BUILDS MOMENTUM IN Q1

On a global basis, Q1 of 2012 was a difficult time for initial public offerings (IPOs). Every major region experienced year-over-year declines in the number of deals priced, with the exception of the United States.

Activity in the U.S. was more encouraging. After a sluggish start, with just four deals in January, the U.S. IPO market picked up significantly in February and March. The 42 IPOs for the quarter represent the most activity in Q1 since 45 offerings priced in 2007, before the financial crisis took the wind out of the market.

The increased activity began in February, which saw a jump in offerings brought to market. Although the number of deals was increasing, the majority were priced below the range bankers sought. Despite the difficult pricings, most February offerings performed quite well in subsequent trading.

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

Those positive returns, combined with a steadily climbing stock market (that saw the NASDAQ break through the 3000 level for the first time in 11 years), gave investors more confidence in new offerings and led to more favorable pricings in March, with a majority of deals pricing within or above their range during the month.

*"The announcement of the Greek bailout, increased consumer spending and the steady rise of the stock market pumped up investor confidence and provided more interest in new stock offerings as the first quarter unfolded," said **Brian Eccleston**, a partner in the Capital Markets Practice of BDO USA.*

BDO CAPITAL MARKETS PRACTICE

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

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2012 Q1 U.S. IPO Trend Tracker

	2012	2011	+/-	10 yr. high	10 yr. low
IPOs	42	32	+31%	45 (2007)	1 (2009)
Proceeds	\$5.9B	\$13.3B	- 56%	\$19.1B*(2008)	\$0.7B (2009)
Avg. Deal	\$140M	\$415M	- 66%	\$1.59B* (2008)	\$140M (2012)
Filings	49	51	- 4%	82 (2004)	4 (2009)

*Heavily impacted by March 2008 \$17.9 billion VISA IPO. Absent that deal, Q1 2011 saw the most proceeds in last 10 years.

Source: Renaissance Capital, Greenwich, Conn. (www.renaissancecapital.com)

► RETURNS PROMISING

As the quarter came to a close, it became clear that investor caution, so pronounced in January, had given way to an increased level of enthusiasm for new stock offerings. In the final week of the quarter, mobile-advertising provider Millennial Media and natural-foods company Annie's Inc. achieved 92 percent and 89 percent respective jumps in their first day of trading, the best first day pops since LinkedIn soared 109 percent in May of last year.

Moreover, overall returns for 2012 IPOs were 31 percent for the quarter. This is welcome news coming off 2011 when U.S. IPOs delivered negative returns (-10%) for the year.

► PROCEEDS LAG

Despite the increase in activity, IPO proceeds are down significantly in 2012 as the average deal size is hovering below \$150 million, the lowest for a Q1 in the past decade. The offering size is partially a result of the valuation pressures that forced many offering companies to cut their prices earlier in the quarter and, more importantly, the absence of any major deals.

In Q1 of 2011, major private equity backed offerings, such as hospital operator HCA Holdings and oil-and-gas pipeline company Kinder Morgan raised \$4.4 billion and \$3.3 billion respectively. This year private equity firms have been eager to take businesses

"The lack of IPOs from China is consistent with the findings from the *BDO IPO Outlook* survey of leading investment bankers (<http://www.bdo.com/download/1929>) that predicted less receptivity for China-based offerings on U.S. exchanges in 2012 due to investor concerns with the accounting scandals of several Chinese businesses. More than three-quarters of the I-bankers indicated that the accounting scandals had led them to increase their due diligence when vetting China-based offerings. No doubt, this serves as a contributing factor to the decrease in offerings coming from China," said **Lee Graul, a partner in the Capital Markets Practice of BDO USA.**

public in order to exit investments, but the deals have been much smaller.

China-based businesses, which have been a major source of large U.S. IPOs in recent years, have virtually disappeared in 2012. Vipshop, an online retailer, was the only Chinese offering on a U.S. exchange for the quarter and the first since last August. Given Vipshop's performance, which declined in early trading after pricing below its expected range, it appears that U.S. investors remain wary of China-based offerings due to a string of well publicized accounting scandals that have plagued Chinese businesses during the past year.

► Q2 FORECAST

With the improving economy, a strong stock market and a healthy backlog of IPOs in the pipeline, conditions are favorable for continuing growth in offering activity in the second quarter.

Any prospective offering companies still hesitant to "dive in" the IPO waters, just received an additional "push" from Congress. The recently passed JOBS Act will ease regulations and associated costs for many businesses conducting IPOs. Companies going public with less than \$1 billion in annual revenue and with less than \$700 million in publicly traded stock (the majority of 2011 IPOs would fall into this category) can now forgo new accounting rules, external audits of internal controls and executive-pay disclosure requirements previously mandated by the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010.

"There has been a great deal of debate in Washington as to whether the JOBS Act will actually create more jobs and whether the Act's easing of accounting requirements for new IPOs is wise from a regulatory standpoint, but there is little debate that it will make it easier and less costly to go public," said **Wendy Hambleton, a partner in the Capital Markets Practice of BDO USA.**

U.S. IPO proceeds are anticipated to increase in the second quarter as larger deals are priced, including the much anticipated debut of Facebook. According to published reports, the world's largest social network is aiming to raise approximately \$5 billion when it prices in May. That size would make it the largest-ever U.S. Web IPO and should enhance investor interest in the broader IPO market.

In addition to Facebook, deals from arts-and-crafts retailer Michael's Stores (\$500 million), distressed-debt investor Oaktree Capital Group (\$500 million) and other large offerings will provide much needed lift to U.S. proceeds during the remainder of the year. Successful execution of these larger deals will encourage optimism for continued growth in the U.S. market during the remainder of 2012.

MARK YOUR CALENDARS...

The following is a list of upcoming conferences and seminars of interest for capital markets and underwriting executives:

APRIL

April 12
BDO USA IPO Seminar
Washington, D.C.

April 24 – 25
2012 NVCA Annual Meeting
Hyatt Regency Santa Clara & Santa Clara Convention Center
Santa Clara, Calif.

April 25 – 27
ACG InterGrowth
Gaylord Texan Hotel
Dallas, Texas

MAY

May 14 – 17
IFC Global Private Equity Conference
Ritz Carlton
Washington, D.C.

May 25
SEC Institute - Guide to Going Public
JW Marriot Union Square
San Francisco, Calif.

May 31 - June 1
Dow Jones Private Equity Analyst Limited Partner Summit
Grand Hyatt
New York, N.Y.

JUNE

June 5 – 8
SuperReturn U.S. 2012
Park Plaza
Boston, Mass.

June 19 - 20
IBF Venture Capital Investing Conference
St. Regis Hotel
San Francisco, Calif.

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