

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

INITIAL OFFERINGS



DEALS DOWN, DOLLARS UP FOR U.S. IPOs IN Q1

SIGNS TRENDING POSITIVE FOR SIGNIFICANT GROWTH IN Q2

The U.S. IPO market got off to an impressive start this year, with a dozen offerings in the first month of the year – the most January activity since 2006 when 15 deals came to market. Unfortunately, pricings in February and March were down considerably from a year ago, resulting in a 26 percent drop in U.S. IPO activity for the first quarter of 2013 (31) compared to 2012 (42).*

Although the number of deals were down, IPO proceeds are up an impressive 28 percent from Q1 last year (\$7.6 billion vs. \$5.9 billion). In fact, offerings have averaged \$245 million thus far in 2013, a jump of 75 percent from the average deal size (\$140 million) of Q1 2012. That deal size also represents an increase of 17 percent over

the average IPO deal for all of 2012 absent Facebook (\$209 million).

More encouraging news is the performance of this year's public company debutantes. Benefiting from the strength of the overall stock market, the average IPO in 2013 has returned almost 18 percent from its offer price.

There were 35 IPO filings during the first quarter, a drop of 30 percent from last year (50). However, this year over year filing comparison is misleading as Q1 2012 was prior to the implementation of the JOBS Act which allows emerging businesses the option of making confidential filings with the SEC.

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

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BDO CAPITAL MARKETS PRACTICE

BDO USA 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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2013 Q1 U.S. IPO Trend Tracker

	2013	2012	+/-	10 yr. High	10 yr. low
IPOs	31	42	-26%	45 (2007)	1 (2009)
Proceeds	\$7.6B	\$5.9B	+29%	\$19.1B* (2008)	\$0.7B (2009)
Avg. Deal	\$245M	\$140M	+75%	\$1.59B* (2008)	\$140M (2012)
Filings	35	50	-30%	82 (2004)	4 (2009)

*Heavily impacted by March 2008 \$17.9 billion VISA IPO

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

“The most popular component of the JOBS Act has been the provision that allows emerging businesses to file their offerings confidentially with the SEC. There have been media reports estimating that close to 200 businesses have taken advantage of this provision. This shadow pipeline makes forecasting offering activity much more difficult. However, it also has the potential to create significant jumps in activity. Once these shadow filers decide to pull the trigger on their filing publicly, they will be in a position to price quickly as they will already be completely vetted by the SEC.”

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

After two consecutive years of significant declines, global IPO proceeds were up over 55 percent in Q1. The United States continued to lead all countries in proceeds raised, as U.S. offerings were responsible for 35 percent of global IPO proceeds.

►INDUSTRIES

In addition to the increased proceeds, perhaps the most significant development of the Q1 IPO market has been the breadth of industries represented among this year's offerings.

Last year, technology companies represented almost 30 percent of all IPOs and almost half of IPO proceeds in the U.S. Moreover, for six of the past seven years the technology industry has led all sectors in bringing offerings to market (lone exception was 2008 when financial crisis brought IPO activity to a virtual halt). During that time, many would argue that the health of the IPO market was tightly linked to the offerings coming from the technology sector.

But during the first quarter of this year, IPO activity in the U.S. has spanned many industry sectors. Numerous industries, led by the financial, healthcare, real estate, energy and technology sectors, have brought multiple offerings to market. Even industrial companies – long absent from the IPO market – have received a warm reception from investors.

The breadth of industries represented among this year's offerings and the reception they have received may be a very positive sign that both businesses and investors have become much more optimistic about the broad U.S. economy.

“The breadth of industries represented among Q1 offerings bodes well for the economy and the U.S. IPO market moving forward. The pace of U.S. IPO activity is likely to pick-up significantly in the coming months as lingering skepticism of the economic recovery gives way to growing confidence among businesses and investors.”

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

►Q2 FORECAST

Despite the wider industry representation and the increased size of this year's offerings, the number of IPOs on U.S. exchanges are down from a year ago. However, there are numerous reasons to forecast a very promising year for the U.S. IPO market moving forward:

- **Strong Stock Market/Low Volatility.** The Dow Jones Industrial Average and the S&P 500 reached all-time highs last month, and the NASDAQ has been trading comfortably above the 3000 level for all of 2013. This sustained growth and low volatility make for an enticing time to take a company public.

- **Improving Macro Economy.** Increasing home prices, a pick-up in construction activity and improving unemployment (four-year low of 7.7% in February) are all signs the U.S. economy is pointed in the right direction. Moreover, according to the Investment Company Institute, individual investors have been putting more of their money back into stock mutual funds since the start of the year. This is a clear sign that investor confidence is coming back. This improved economic outlook, combined with the low volatility of the stock market, should also make investment banks more willing to underwrite transactions.
- **Vanishing Obstacles.** The presidential election and the fiscal cliff negotiations introduced a great deal of uncertainty to U.S. markets and caused many issuers to postpone offerings in Q4 2012 and Q1 2013. These uncertainties have been resolved and these offering businesses should be restarting their IPO processes. The Sequester – which has not produced the demise some predicted – and ongoing concerns with the European economic situation are the only current obstacles for the U.S. economy.
- **PE Exits.** Private equity backed IPOs have performed well over the past two years. As the economy improves and the stock market continues its impressive run, there should be more deals coming from PE firms seeking to exit from the significant backlog of PE portfolio businesses.
- **Positive Performance.** Continuing a trend from 2012, IPOs are continuing to deliver impressive returns for investors. As individual investors return to the stock market, favorable IPO performance is sure to draw more investment dollars.
- **Shadow IPOs.** It has been widely reported that the JOBS Act's impact on the U.S. IPO market has been underwhelming at best, but it is still premature to make any final judgment of the new law. Given the high number of companies that have chosen to use the confidential filing provision of the JOBS Act over the past year, many offering businesses may emerge from the shadows to quickly spike pricing activity.

Any forecast is subject to change due to unforeseen variables, but given the aforementioned points, we anticipate a positive second quarter for the U.S. IPO market.

“When you consider all of the variables that impact the decision to pull the trigger on an offering, the window to IPO is as open as it has been in years. Given that fact, and the backlog of companies in both the public and shadow pipelines, 2013 could be a big year for U.S. offerings.”

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



MARK YOUR CALENDARS...

CAPITAL MARKETS EVENT SCHEDULE (April – June)

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

APRIL

April 17
BDO USA Capital Markets Summit
 Gannett Headquarters
 McLean, VA

MAY

May 12 -15
IFC/EMPEA Global Private Equity Conference
 Ritz Carlton
 Washington, DC

May 14
VentureScape (NVCA Annual Meeting)
 Westin San Francisco Market Street
 San Francisco, CA

May 22 – 25
ACG Intergrowth 2013
 Rosen Shingle Creek
 Orlando, FL

May 30
Annual Midwest Venture Capital Luncheon
 Chicago, IL

May 31
SEC Institute – Your Guide to Going Public
 Marriott Union Square
 San Francisco, CA

JUNE

June 3 – 6
SuperReturn U.S. 2013
 Renaissance Boston Waterfront
 Boston, MA

June 19 – 20
IBF Venture Capital Investing Conference
 The St. Regis
 San Francisco, CA



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