

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

INITIAL OFFERINGS



U.S. IPO ACTIVITY HITS SPEED BUMP IN Q1 OF 2015

IPO MARKET HAS PERFORMED WELL, BUT REPEATING PERFORMANCE OF 2014 WILL BE DIFFICULT

After two consecutive years of robust growth, the U.S. market for initial public offerings (IPOs) has experienced a steep drop in activity during the initial months of 2015. With just 34 IPOs, activity is down 47 percent from Q1 2014 and, similarly, total proceeds (\$5.4 billion) are down 49 percent year-over-year. This makes Q1 2015 the least active quarter in offering activity in two years (31 IPOs in Q1 2013) and the weakest in terms of proceeds raised since Q3 2011 (\$3.5B).*

Thus far in 2015, the U.S. IPO market hasn't had the benefit of large offerings that were fairly commonplace in 2014. It has also been

negatively impacted by a lack of deals coming from the technology and energy industries - two traditionally strong sources of offerings.

Moreover, the stock market, which was relatively flat in Q1, has certainly played a role in the drop in offerings. Over the past two years of solid returns, businesses considering an IPO were motivated to pull the trigger on a deal in order to benefit from the rising market. This year's luke warm stock market has apparently removed the impulse to rush an offering out the door.

By any year-over-year measurement, the 2015 IPO market is off to a much slower

BDO CAPITAL MARKETS PRACTICE

BDO USA is a valued business advisor to companies 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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* Renaissance Capital is the source for all historical data related to the number, size and returns of U.S. IPOs.

“IPO activity on U.S. exchanges slowed considerably during Q1, as certain industries are not producing the number of deals we have become accustomed to and the market hasn’t had the benefit of larger deals that were common in 2014. However, this is not cause for alarm, as the IPO market is actually performing quite well with the average IPO providing healthy returns. When you consider that 2014 was the best year for IPOs since the turn of the century, the current pace of offerings is simply a return to a pace similar to what we saw from 2011 through 2013.”

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

2015 Q1 U.S. IPO Trend Tracker

	2015	2014	+/-	10 yr. high	10 yr. low
IPOs	34	64	- 47%	64 (2014)	1 (2009)
Proceeds	\$5.4B	\$10.6B	- 49%	\$19.1B* (2008)	\$0.7B (2009)
Avg. Deal	\$159M	\$166M	- 4%	\$1.59B* (2008)	\$140M (2012)
Filings	50	103	- 49%	106 (2014)	4 (2009)

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

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

start than last year. However, when you look back beyond 2014, from a historical perspective IPO activity in the first quarter was consistent with Q1 levels from 2011 through 2013. Given the healthy 15 percent return for the average Q1 offering, the IPO market year to date has actually performed quite well.

INDUSTRIES

The healthcare sector, which includes biotech businesses, had more IPOs than any other industry in both 2013 and 2014. Healthcare maintained its leadership position in Q1 as it accounted for almost half (16) of all offerings during the first quarter of 2015. The financial sector came in second for the quarter with nine deals, on pace with 2014 when the industry accounted for 36 offerings.

Much of the drop in overall IPO activity can be traced to steep reductions in offerings from the technology and energy industries in Q1.

Only four technology companies have gone public this year, as the private market is flush with venture capital allowing start-ups to wait longer before wading into the public markets. Moreover, beyond traditional VC funding, hedge funds and mutual funds that previously shunned the risk associated with venture style investing are now joining in private-funding rounds. These funds are seeking to boost returns and ensure that they can buy blocks of shares in IPOs as competition for tech offerings intensifies. This new trend is greatly increasing the valuations of late-stage tech start-ups, which will eventually lead to larger deal sizes when they do pursue offerings. In the near-term, it is slowing the number of IPOs coming from the tech sector.

The energy industry was a leading contributor to the 2014 IPO market, both in terms of number and size of deals. In Q1, there were just two energy offerings as the sector has been heavily impacted by the collapse of oil prices. With crude-oil futures dropping more than 50% from last summer, the IPO market for exploration and production companies has come to a virtual halt and isn't likely to get moving in the near term.

FORECAST

This year's U.S. IPO market isn't likely to match the heights of 2014, but it is still on track for a very healthy year. Moving forward, the pipeline for deals in the remainder of 2015 remains promising. Overall, U.S. economic conditions are healthy and there remains a backlog of PE and VC backed businesses that are looking to pursue an exit through an IPO.

U.S. IPOs by Industry

Industry	# of 2014 IPOs	# of Q1 2015 IPOs
Health Care	102	16
Technology	55	4
Financial	36	9
Energy	30	2
Consumer	16	1
Capital Goods	10	1
Business Services	8	0
Transportation	8	1
Materials	7	0
Communications	2	0
Utilities	1	0

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

Although the stock market has been generally flat this year, given the positive performance of IPOs that priced in Q1, there is no reason for prospective offering businesses to delay their IPOs and there are potential sizable offerings on the horizon.

On March 31, Go-Daddy, the world's largest website registrar, priced its initial public offering at \$20 a share, raising \$460 million. By the end of trading on April 1, the stock closed at \$26.15, up more than 30 percent. If the offering continues to perform well, it could be a sign that investors have an appetite for better known brands in the tech sector and might entice other potential large tech IPOs to follow suit. Uber, the mobile ridesharing application which was recently valued at \$41 billion in its latest private funding round, and Airbnb, the international home rental site which was similarly valued at \$20 billion, are just

two examples of major consumer tech brands that could launch large IPOs in 2015.

Perhaps the greatest threat to this year's IPO market is also its current greatest strength - biotechnology firms. Biotech businesses have played a major role in the healthcare industry being the leading source of IPOs over the past two years. Biotech stocks have been on fire for more than a year and, given the highly prospective nature of these companies, there has been some concern about a potential "biotech bubble". During the last trading sessions of Q1, biotechs have lost some of their luster, raising bubble concerns. This issue bears watching as we enter Q2, as it can have a major impact on the IPO market and the greater stock market moving forward.

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 13 - 15

ACG InterGrowth 2015

Waldorf Astoria and Hilton Bonnet Creek
Orlando, Florida

MAY

May 1 - 5

eMerge Americas

Miami Beach Convention Center
Miami, Florida

May 6 - 7

VentureScape 2015 (NVCA Annual Meeting)

Palace Hotel
San Francisco, California

May 12 - 13

IFC Global Private Equity Conference

Ritz Carlton
Washington, DC

JUNE

June 8 - 9

Private Equity Latin America Forum

Harmonie Club
New York, New York

June 15 - 18

SuperReturn U.S. 2015

Renaissance Boston Waterfront Hotel
Boston, Massachusetts



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