

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

INITIAL OFFERINGS



U.S. IPO MARKET ON PACE FOR LEAST ACTIVITY SINCE 2009

OFFERINGS THAT HAVE COME TO MARKET HAVE DELIVERED STRONG RETURNS

A flurry of initial public offerings (IPOs) at the close of the third quarter made September the most active month for U.S. IPO pricings this year. Despite this recent spike in offerings, overall, the 2016 U.S. IPO market has been extremely disappointing and is on pace to produce the lowest level of offerings and proceeds since 2009 during the depths of the financial crisis.

Through September, there have been 75 U.S. IPOs that have raised \$12.3 billion in proceeds, both figures represent a drop of almost 50 percent from the same time in 2015. The 101 IPO filings through the first nine months of the year are just over half the level of a year ago. Barring a dramatic

and unforeseen surge in IPO activity, the U.S. market is likely to experience the lowest level of offerings, proceeds and filings in seven years.*

Through Q3, U.S. IPOs have averaged \$164 million in size, approximately the same as 2015 and smaller than all but one year (2010) over the past decade. This trend can largely be attributed to the JOBS Act, which allows companies with less than \$1 billion in annual revenue to forego some of the more stringent filing requirements when registering their offerings. These more lenient rules for emerging businesses, enacted in 2012, have played a major role in the success of bringing smaller offerings to the IPO market.

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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"Despite the strong returns of the average 2016 IPO and the strong investor appetite for technology offerings - as evidenced by Twilio's soaring three-month performance - Uber, Snapchat, Airbnb and the other major tech-unicorns appear no closer to moving ahead with an IPO. That's because conservative pricings have been a key component of 2016's strong returns and the terms that unicorns agreed to in their multi-billion dollar private valuations make a conservative pricing a non-starter. Many of these private funding rounds came with a "ratchet" provision that guarantees investors additional shares of the company if an IPO prices below their agreed upon valuation. Last year, Square Inc. had to give investors an additional \$93 million in shares to make good on such a provision," said **Lee Duran, Partner in the Capital Markets Practice of BDO USA**. "If IPOs continue to deliver strong returns, thereby enabling offerings to be priced more aggressively, and unicorns begin to grow into their valuations, there is a reasonable chance we may see some move forward with offerings in 2017. But it will be a few mustangs, not a full stampede."

2016 U.S. IPO TREND TRACKER THROUGH Q3

	2016	2015	+/-	10 yr. high	10 yr. low	10 yr. avg.
IPOs	75	138	- 46%	207 (2014)	30 (2008)	111
Proceeds	\$12.3B	\$23.6B	- 48%	\$70.5B (2014)	\$8.9B (2009)	\$29.9B
Avg. Deal	\$164M	\$171M	- 4%	\$813M* (2008)	\$147M (2010)	\$269M
Filings	101	187	- 46%	294 (2014)	53 (2009)	182

*Heavily impacted by \$17.9 billion VISA IPO

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

HIGH PERFORMANCE

While it has been a down year for issuers, it has been a rewarding year for IPO investors.

Although the number of deals are down, most of the businesses that have been brought public in 2016 have performed extremely well. The less active, more discerning market has forced underwriters to be more conservative in pricing offerings for fear that disappointing debuts could further weaken the market and bring offerings to a halt. Through the first eight months of the year, these discounted offerings have resulted in the average 2016 IPO delivering a return of better than 30 percent from its offering price.

DISCONNECT

This year's IPO doldrums come during a market environment that would seem to be conducive to a high level of IPO activity. For most of the past seven years, U.S. stocks have enjoyed a long post-crisis rally. Currently, stock market indexes remain near all-time highs and market volatility – since the first few weeks of 2016 – has been relatively low.

Yet, initial offerings remain in the slow lane.

The rise in M&A activity, the Federal Reserve's ongoing uncertainty on when to raise interest rates, the uncertainty surrounding the U.S. Presidential election, the collapse in crude oil prices and the ongoing instability of the global economy – as demonstrated by this summer's Brexit vote in the UK – are just a few of the factors put forward for the stagnant IPO market.

Yet, the availability of private funding at attractive valuations has most likely played the biggest role in businesses shunning the IPO market. The technology industry, for many years the engine of the U.S. IPO market, has been the biggest beneficiary of this funding, which has created more than 140 "tech-unicorns" – private technology businesses that are valued in excess of \$1 billion. With these big-name tech companies abandoning public equity, the U.S. IPO market has lost its main engine.

INDUSTRIES

For the fourth consecutive year, the healthcare sector is leading all industries in the number of offerings brought to market, accounting for 45 percent of total IPOs in 2016. The technology (18 percent) and financial (13 percent) sectors are running a distant second and third through Q3. No other industry has reached double digits in offerings this year.

“After experiencing excellent years in 2013 and 2014, the U.S. IPO market began to slow considerably during the second half of 2015 and almost came to a virtual halt during Q1 of this year. After some stops and starts during the Spring and Summer, we’ve seen a burst of activity as the third quarter came to a close, which bodes well for a strong start to Q4,” said **Paula Hamric, Partner in the Capital Markets Practice of BDO USA**. “The most positive factor of the 2016 U.S. IPO market has been the strong performance of those businesses that have taken the plunge, which reflects strong investor demand for quality offerings. Should IPOs continue to deliver robust returns for the remainder of the year, the market will be well positioned for a strong recovery in 2017.”

Q4 FORECAST

The positive market conditions that led to the uptick in U.S. IPO pricings in September and the strong performance of offerings overall is likely to drive additional pricings during the initial weeks of the fourth quarter, but look for activity to ebb dramatically by the last week of October because of the U.S. Presidential election. Given the brief window between the election and the Thanksgiving holiday, activity will probably remain at a trickle until December, which will hamper a major turnaround in Q4.

However, should returns remain positive for the remainder of the year and the overall stock market remain strong, 2017 could see a major recovery for U.S. IPOs and maybe even the sighting of some unicorns in the public markets.

IPOS ON THE HORIZON

The following are potential U.S. IPOs of note for Q4.

Offering Company	Industry	Potential Offering Size
Acushnet	Golf equipment	\$300 million
AquaVenture Holdings	Wastewater treatment	\$124 million
Azure Power Global	Indian solar power	\$150 million
Camping World	RVs and related	\$200 million
CBS Radio	Radio spinoff	\$500 million
Coupa Software	Cloud-based software	\$100 million
PointClickCare	Cloud-based software	\$100 million
Yeti	Outdoor Lifestyle Products	\$500 million

MARK YOUR CALENDARS...

Q4 CAPITAL MARKETS EVENT SCHEDULE

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

OCTOBER

October 15 - 17
5th Annual Global Crowdfunding Convention
 Planet Hollywood
 Las Vegas, Nevada

October 17 - 18
2016 Midwest ACG Capital Connection
 Navy Pier
 Chicago, Illinois

October 18 - 19
Private Fund Finance and Compliance Forum 2016
 W Hotel
 San Francisco, California

NOVEMBER

November 2
NVCA Growth Equity Summit
 Waldorf Astoria
 New York, New York

November 15- 16
2016 Florida ACG Capital Connection
 Ritz-Carlton
 Amelia Island, Florida



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