

2016 BDO IPO HALFTIME REPORT



NUMBER OF U.S. IPOs TO INCREASE SLIGHTLY OVER REMAINDER OF YEAR

Majority of Bankers Predict Serious Correction in Valuations of Tech Unicorns

The number of initial public offerings (IPOs) on U.S. exchanges took a nosedive during the first six months of 2016, down by approximately 60 percent year-over-year. Proceeds are down even more (66%)*. According to the **2016 BDO IPO Halftime Report**, a survey of capital markets executives at leading investment banks, many of the issues causing businesses to hold off on their offerings are still present in the market and that will cause any increase in offerings during the second half of the year to be minimal.

When asked to identify the main factor in the dramatic drop in the number of IPOs on U.S. exchanges in 2016, the investment bankers identified four key drivers - stock market volatility during the initial weeks of the year (41%), the availability of private funding at attractive valuations (23%), the poor performance of 2015 IPOs (19%) and the rise in M&A activity causing more businesses to opt for the price certainty of a sale over the risk of an offering (16%).

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

BDO CAPITAL MARKETS PRACTICE

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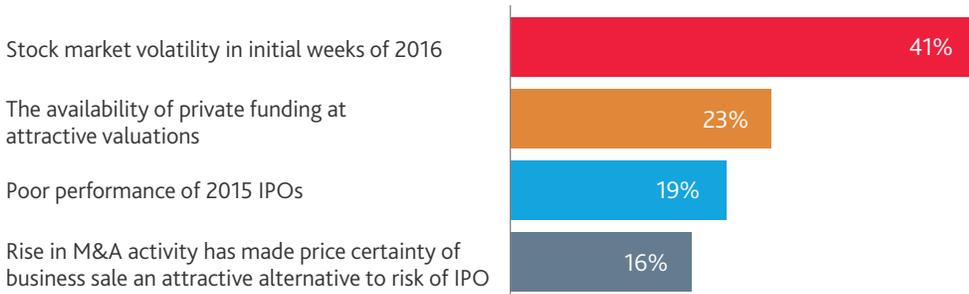
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“With strong percentages of bankers citing different reasons for the downward trend in IPOs, it is clearly a combination of several factors that have contributed to the stall in offerings,” said **Ted Vaughan, partner on the Capital Markets Practice of BDO USA**. “Beyond the main factors identified by the bankers, I would suggest that the Federal Reserve’s 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 throughout the global economy - most recently demonstrated by the exit of the UK from the European Union – have all been contributing factors.”

During the remainder of 2016, one-third (34%) of bankers predict the pace of U.S. IPO activity will increase from the first half of the year, while approximately one-fifth (18%) forecast a decrease in offering activity. Close to half (47%) anticipate IPO activity will remain at the same level as the first half of the year. Overall, capital market executives are predicting a slight increase (+ 5%) in the number of U.S. IPOs during the second half of the year. They predict offerings will average \$190 million in size, which projects to approximately \$15 billion in total IPO proceeds on U.S. exchanges in 2016. This would represent the lowest level of offerings since 2009, the height of the financial crisis, and lowest amount of proceeds since 2003.

The number of IPOs on U.S. exchanges has decreased dramatically in 2016. What factor do you feel has had the greatest impact on this decrease?

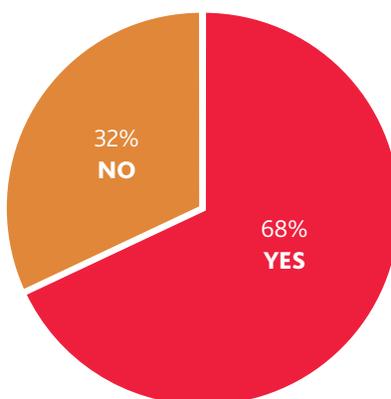


Source: 2016 BDO IPO HALFTIME REPORT

PRESIDENTIAL ELECTION

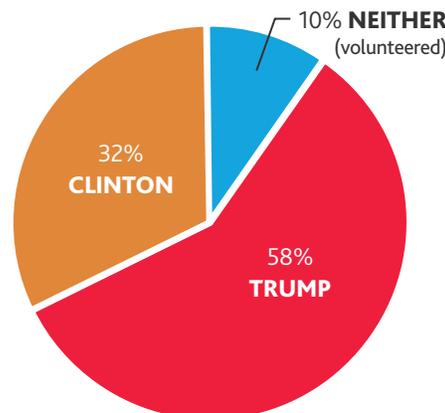
Better than two-thirds (68%) of I-bankers contend that the U.S. Presidential election will have an impact on the U.S. IPO market. When asked which of the U.S. presidential nominees would be better for the U.S. IPO market, a majority (58%) of the capital markets community identified Donald Trump, compared to just one-third (32%) that chose Hillary Clinton. The remaining bankers (10%) expressed no preference between the two candidates in terms of impact upon the US IPO market.

Do you feel the result of the Presidential election will impact the U.S. IPO market?



Source: 2016 BDO IPO HALFTIME REPORT

Which of the presumptive Republican and Democratic Presidential Nominees do you feel would be better for the US IPO market?



Source: 2016 BDO IPO HALFTIME REPORT



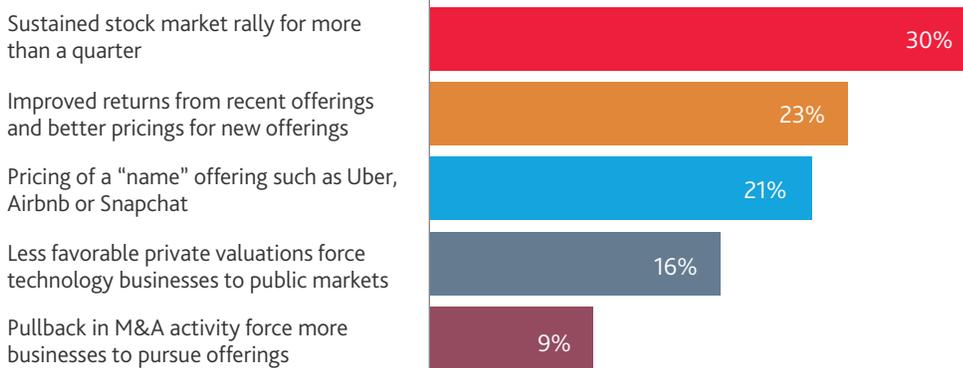
“In many ways the election has already impacted the IPO market. Any election brings with it a degree of uncertainty and this election has probably brought more uncertainty than any in recent memory. Uncertainty, just like volatility, heightens our aversion to risk and that is not a conducive climate for moving forward with a public offering,” said **Chris Smith, partner in the**

Capital Markets Practice of BDO USA.

IPO TURNAROUND?

Capital markets executives are divided when asked what they consider to be the most important factor for generating more IPOs on U.S. exchanges during the second half of the year. Close to one-third (30%) cite the need for a sustained stock market rally of more than a quarter and close to one-quarter (23%) point to the need for better pricings and improved returns from new offerings. Pricing of a high-profile offering (21%), a correction in lofty private valuations (16%) and a pullback in M&A activity (9%) were other potential IPO drivers identified by the bankers.

What do you consider to be the most important factor to generating more IPOs during the remainder of 2016?



Source: 2016 BDO IPO HALFTIME REPORT



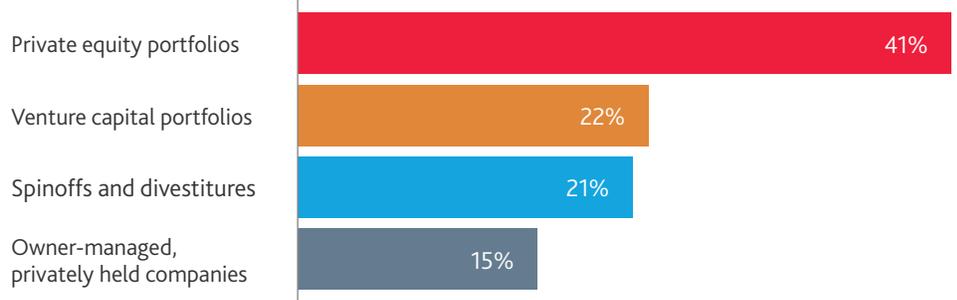
“Although the U.S. IPO market began to show signs of life in May, almost doubling the number of offerings priced during the first four months of the year, it remains well behind the pace of 2015 and the average for the past decade, said **Paula Hamric, partner in the Capital Markets Practice of BDO USA.** “In our survey, sizable proportions of the investment banking community cite different

factors when asked for the key to getting the U.S. IPO engine running again. However, the overarching theme is an aversion to the risk associated with making an offering in increasingly discerning public markets versus the certainty of private funding or a sale. Until these alternatives become less attractive and IPO pricing improves, growth in offering activity may be minimal.”

SOURCE OF IPOs

When asked to identify the primary source of IPOs in the second half of the year, forty-one percent of capital market executives identified private equity firms. Lesser proportions cited venture capital portfolios (22%), spinoffs and divestitures (21%) and owner-managed, privately-held businesses (15%).

What do you think will be the greatest source of IPO's in the second half of 2016?

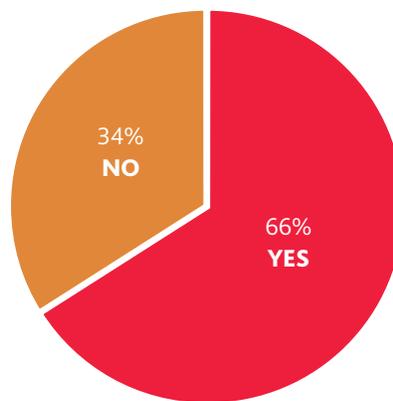


Source: 2016 BDO IPO HALFTIME REPORT

INDUSTRY FORECAST

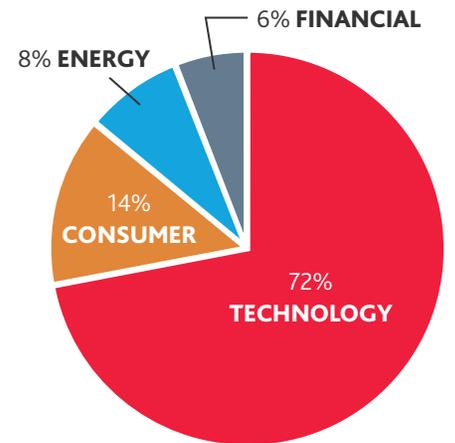
For the fourth consecutive year, the healthcare sector – driven by biotech - is leading all industries in the number of IPOs priced on U.S. exchanges, accounting for more than half of all offerings. Two-thirds (66%) of investment bankers believe this trend will continue in the second half of 2016. Of the one-third (34%) who believe another industry will emerge with more offerings during the remainder of the year, 72 percent predict the technology industry will lead the way.

For the fourth consecutive year, the healthcare sector is leading all industries in IPOs. Do you anticipate healthcare will continue to generate the most offerings during the remainder of the year?



Source: 2016 BDO IPO HALFTIME REPORT

What industry do you feel will generate the most IPOs during the remainder of 2016? (asked to 34% that don't believe healthcare will lead in IPOs)



Source: 2016 BDO IPO HALFTIME REPORT



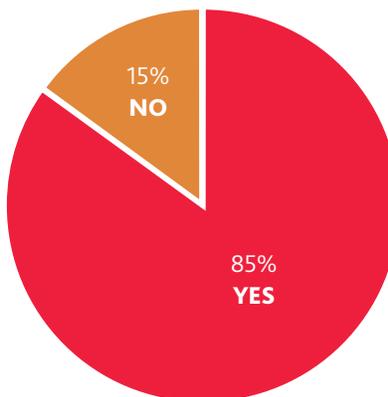
"In recent years, the widespread availability of private funding at attractive valuations has led to a dramatic drop in the number of IPOs coming from the technology sector, the historical leader in offering activity. Instead, there are now more than 140 technology businesses privately valued at more than \$1 billion, yet only one of these companies has pursued an IPO in 2016 as they fear their private valuations won't stand-up to scrutiny in the more discerning public markets," said **Lee Duran, Partner in the Capital Markets Practice of BDO USA**. "As new rounds of private financing reflect more realistic valuations, unicorns will increasingly be faced with a choice between being acquired or going public. Either way, the actual profitability of these businesses will be given much greater weight versus projections of future performance."

PROBLEM WITH UNICORNS

For many years, the technology industry served as the star of the U.S. IPO market. However, in recent years, due to the wide availability of private financing, tech has played much more of a supporting role with far fewer offerings as they are able to stay private longer. In fact, there are now more than 140 private technology businesses – dubbed "tech-unicorns" – that are valued at more than \$1 billion.

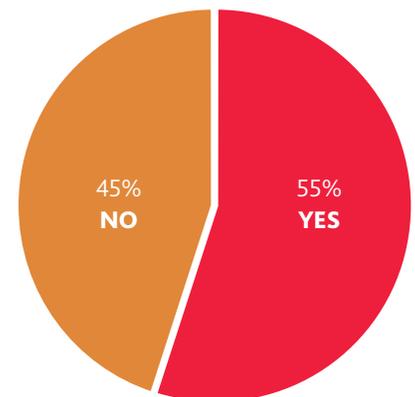
A majority (52%) of capital markets executives at leading investment banks are predicting a serious correction in the valuations of these so-called "unicorns". Last year, in order to gain additional funding, some of these businesses went public at valuations considerably below their most recent round of private financing. An overwhelming majority (85%) of bankers believe there will more of these type of offerings moving forward.

In order to gain additional funding, some tech unicorns have gone public at valuations considerably below their most recent private round of financing. Do you see more such offerings happening during the remainder of 2016?



Source: 2016 BDO IPO HALFTIME REPORT

If private valuations continue to exceed those of the public markets, do you anticipate some of these \$1 billion "unicorns" failing?



Source: 2016 BDO IPO HALFTIME REPORT

One of the smaller unicorns, Twilio, a provider of communication software for other tech businesses, recently completed a very successful IPO. It's stock almost doubled on its initial day of trading, after pricing above its most recent private valuation. Although this is welcome news to any tech business considering an offering, Twilio had a private valuation of just over \$1 billion and is too small to be considered a bellwether for larger unicorns such as Uber, Snapchat and Airbnb.

Moreover, if private valuations continue to exceed those of public markets, a majority (55%) of the capital markets community anticipate some of these "unicorns" will fail. When asked how many, the consensus was that approximately 17% will not survive.



ABOUT THE SURVEY

The BDO IPO Halftime Report is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, on behalf of BDO USA. Executive interviewers spoke directly to 100 capital markets executives, using a telephone survey conducted within a scientifically-developed, pure random sample of the nation's leading investment banks.

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