

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

INITIAL OFFERINGS



U.S. IPO MARKET SHAKES OFF STOCK VOLATILITY TO ACHIEVE STRONG GROWTH IN Q1 OF 2018

Number and Size of Offerings Point to Promising Forecast for Remainder of Year

After two years of diminishing activity, initial public offerings (IPOs) bounced back significantly in 2017 and that momentum has carried over into 2018. Through the first quarter of the year, offerings (+ 76%), proceeds (+57%) and filings (+ 16%) are up substantially year-over-year from 2017.*

The year kicked off with a record January, as 17 offerings generated more than \$9 billion in proceeds. It was also the most proceeds for any month since September 2014 when Alibaba went public.

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

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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The stock market correction of early February was a major scare, causing some companies to postpone their offerings, but activity began to pick-up through the remainder of the quarter. Q1 closed with a flurry of activity, as 8 offerings priced in the final week of March.

Overall, the 44 offerings in Q1 were the most since 2014 (64), a year that would become the best year for U.S. IPOs since the dotcom boom at the turn of the century. The \$15.6 billion in IPO proceeds were the highest for a first quarter since 2008 when VISA's massive IPO pushed Q1 proceeds to \$19.1 billion.

2018 Q1 U.S. IPO TREND TRACKER

	2017	2018	+/-
IPOS	25	44	+ 76%
PROCEEDS	\$9.9B	\$15.6B	+ 57%
AVG. DEAL	\$396M	\$355M	- 10%
FILINGS	38	44	+ 16%

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



"The U.S. IPO market is off to a strong start in 2018, with offerings, proceeds and filings demonstrating strong year-over-year growth," said Christopher Tower, Partner in the Capital Markets Practice of BDO USA. "This performance is even more impressive when you consider the turmoil that was overcome to achieve these results. After a year of steady stock market growth in 2017, stock volatility returned with a vengeance in Q1. Combined with threats of an impending trade war, a tech sell-off sparked by regulatory fears and seemingly constant political strife, there was no shortage of concerns to cause offering companies to reconsider the timing of their deals, but most IPOs proceeded to price as planned. This would seem to bode well for continued growth moving forward."

INDUSTRIES

The healthcare and technology industries were the clear leaders in IPOs during the quarter, but there was a wide breadth of industries represented among Q1 offerings. In addition to healthcare and tech, the U.S. IPO market saw multiple offerings from the energy, consumer, industrials, real estate and financial sectors.

Q1 IPOS BY INDUSTRY

INDUSTRY	# OF DEALS
Healthcare	14
Technology	10
Energy	5
Consumer discretionary	5
Industrials	3
Real Estate	3
Financial	3
Utilities	1

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

UNICORN STAMPEDE?

One of the most welcome developments in the U.S. IPO market thus far in 2018 has been the successful IPOs of two unicorn businesses (private companies valued in excess of \$1 billion).

On March 16, cloud network security firm, Zscaler, had a first-day pop of +106% which gave it a valuation of \$4 billion. One week later, file-sharing company, Dropbox, had a strong market debut with shares jumping 36 percent on the first day of trading. That pushed Dropbox's market value to \$11.2 billion, higher than it had been valued in the private markets.

Following those successful launches, DocuSign, a 15 year-old digital signature company privately valued at \$3 billion announced its plans to go public in 2018.

These are reassuring signs for the technology sector and for the investors who have billions locked up in these highly valued, but privately held start-ups.



"Whether it was Snap, Blue Apron or the poor IPO performance of another tech-darling, there have been numerous false starts creating difficulty in predicting when the many tech-unicorns would enter the public markets," said **Lee Duran, Partner in the Private Equity Practice of BDO USA.** *"However, the strong reception for Zscaler and, especially Dropbox - on a day when giant tech companies were driving a sharp sell-off in the greater market - certainly suggests that the time may be right for early-stage investors in the largest private Silicon Valley start-ups to cash-in through an IPO."*

Q2 FORECAST

The stock market has been highly volatile in 2018 and some economists question whether stocks remain over-valued despite the recent correction. Investors are anxious about the threat of inflation, the possibility of a trade war, a potential regulatory crackdown on the technology industry and numerous foreign policy and political risks.

Although these concerns bring a certain level of uncertainty for the U.S. IPO market moving forward, the forecast for the remainder of the year remains promising due to several factors:

- ▶ For many years, the technology industry was the engine of the U.S. IPO market, but in recent years activity from this sector has stagnated. Q1 saw a pick-up in tech IPOs and those offerings produced strong returns. That performance, combined with a potential influx of unicorns encouraged by the positive experience of the Dropbox and Zscaler offerings, bodes well for more highly valued deals from this critical industry.
- ▶ Eight Chinese companies priced IPOs on U.S. exchanges during Q1, raising \$3.3 billion in proceeds, the most in three years. This is a welcome sign from a foreign source that was a strength of the U.S. IPO market just a few years ago.
- ▶ The full impact of the recent tax cuts has yet to realized. People will have more capital and they will be looking to invest it. IPOs, which offer greater potential return than existing stocks, are one of the areas they will be considering with those funds.

Given these factors – and coming off the best first quarter for proceeds in a decade - it is safe to say that the IPO window is wide open right now.



"In 2017, as stock indexes soared to record highs, the IPO market remained sluggish by historical standards as many potential offering companies that might have typically listed their shares opted to stay on the sidelines," said **Ted Vaughan, partner in the Capital Markets Practice of BDO USA.** *"During Q1 of 2018, that has started to change. Investors are flush with cash and looking for investments with high returns, while bankers are encouraging potential offering businesses to move quickly to sell shares to the public while valuations remain high. This combination will continue to make for a favorable offering climate in Q2."*

IPOS ON THE HORIZON

The following are potential U.S. IPOs of note for Q2.

Offering Company	Industry	Potential Offering Size
Smartsheet	Collaboration Platform	\$100 million
DocuSign	Digital Signature Company	\$400 million
Ceridian HCM	Human Capital Management Software	\$200 million
Pivotal Software	Cloud Computing	\$100 million
GrafTech International	Graphite Electrode Manufacturer	\$100 million

MARK YOUR CALENDARS...**Q2 CAPITAL MARKETS EVENT SCHEDULE**

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

MAY**May 2 - 4****ACG Intergrowth 2018**

Marriott Marquis & Marina
San Diego, CA

May 9 - 10**Private Equity US Forum**

Harmonie Club
4 E. 60th Street
New York, NY

May 14 - 17**IFC Global Private Equity Conference**

Ritz-Carlton
Washington, DC

May 16 - 17**NVCA VCs to DC**

Newseum
555 Pennsylvania Avenue, NW
Washington, DC

JUNE**June 18 - 20****Super Return US East**

Renaissance Boston
Waterfront Hotel
Boston, Massachusetts

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