

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

INITIAL OFFERINGS



U.S. IPO ACTIVITY CONTINUES TO INCREASE IN Q1 OF 2014

ALMOST ALL SIGNS ARE TRENDING POSITIVE FOR SIGNIFICANT GROWTH IN 2014

In 2013, initial public offerings (IPOs) in the U.S. – buoyed by the strong stock market – had their best year in more than a decade with both offerings and proceeds hitting the highest levels since the year 2000. Despite stocks experiencing some volatility in the initial weeks of 2014, the U.S. IPO market got off to an extremely impressive start in Q1 with offerings (+106%), proceeds (+39%) and filings (+186%) up significantly over last year.*

IPOs are benefiting from increasing confidence in the U.S. economy and the positive performance that offerings are experiencing. With the average Q1 IPO returning close to 25 percent through March 31, after an average return of almost 40 percent for IPOs in 2013, businesses are rushing to go public at the fastest pace in years to take advantage of investor demand.

*Renaissance Capital is the source of 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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2014 Q1 U.S. IPO Trend Tracker

	2014	2013	+/-	10 yr. high	10 yr. low
IPOs	64	31	+106%	64 (2014)	1 (2009)
Proceeds	\$10.6B	\$7.6B	+ 39%	\$19.1B* (2008)	\$0.7B (2009)
Avg. Deal	\$166M	\$245M	- 32%	\$1.59B* (2008)	\$140M (2012)
Filings	103	36	+ 186%	103 (2014)	4 (2009)

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

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

"Investors are looking for performance and initial public offerings have been delivering strong returns for more than a year. These returns encourage more investors to turn to initial offerings and, in turn, more businesses are motivated to take advantage of investors willingness to take a risk on new public companies. Some companies that have been contemplating going public are now rushing to capitalize on investor's risk appetite before the window of opportunity closes."

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

The only IPO data point that hasn't increased in 2014 is the size of the average offering, which came in at \$166 million in Q1. This represents a drop of 32 percent from the average offering size of 2013. The smaller deal size can be attributed to two primary factors, the impact of the JOBS Act which has encouraged smaller businesses (those with revenues under \$1 billion) to go public and the lack of a mega-deal, such as Facebook or General Motors, that can lift the average greatly.

From a global perspective, U.S. exchanges continued to lead all other countries in IPO proceeds, generating close to one-quarter

of total global proceeds in Q1. This is an impressive figure, but significantly below 2013 when U.S. IPOs accounted for more than one-third of global proceeds. This reduced share of total proceeds reflects an improved market for IPOs on foreign exchanges, as both the Asia-Pacific region and Western Europe markets have more than tripled their proceeds year-over-year.

INDUSTRIES

Much of the growth in IPOs during Q1 can be attributed to the rapidly changing health care industry. This sector, which also led all industries in 2013 offerings, accounted for 30 of the 64 deals during the quarter.

A good deal of the health care offerings have been in the biotech field and, among them, are some of the best performing IPOs of the quarter. Ultragenyx Pharmaceuticals, Auspex Pharmaceuticals and Dicerna Pharmaceuticals have each more than doubled from their offering price.

"Many of the biotech offerings have performed well in Q1, but this is a potential bubble that bears watching as many of these businesses lack earnings, in fact some had no revenues at all. Traditionally biotech IPOs carry high risk as businesses can come to market at an early stage of drug development when revenues are low and failures are more likely. This phenomenon has also been a contributing factor in the smaller average size and lack of profitability of IPOs this year."

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

The technology sector, the traditional leader in offerings, spawned 14 deals in Q1. Although this represented a distant second place to healthcare, activity in this vertical should increase during the remainder of 2014.

GoDaddy, the Internet company that provides domain-name registration and website-hosting services to more than 12 million customers world-wide, is preparing for an IPO later this year according to multiple media reports. Other high-profile tech offerings expected to come to market in 2014 are cloud storage operator Box, online music provider Spotify, and wearable camera company GoPro.

► FORECAST

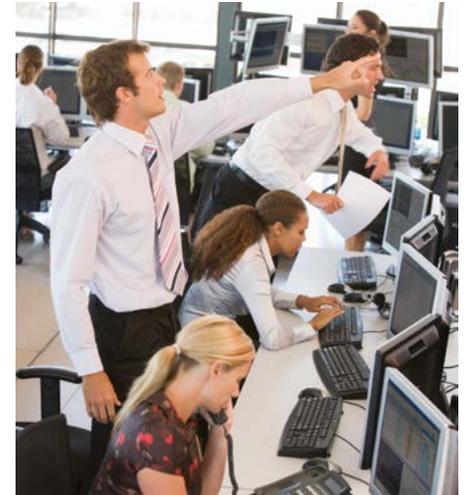
With 103 companies filing for IPOs during Q1, far ahead of the 36 that filed in the first quarter of 2013, there doesn't appear to be any slowdown in offering activity on the near horizon. With this enormous backlog of companies, the 2014 IPO market could approach levels not seen since the dot-com boom.

In addition to a stronger economy and promising returns, IPOs are benefitting from several additional factors in 2014:

- **PE & VC Profits.** Private-equity firms are flocking to the IPO market to list businesses they've owned for several years, such as the aforementioned GoDaddy, in the hopes of cashing in profits while share prices remain high. Venture-backed IPOs are also contributing greatly to the surge in market activity.
- **Spinoffs may increasingly contribute to more new offerings.** General Electric is planning to spinoff part of its credit card unit in an upcoming IPO. The unit, which will be called Synchrony Financial, is the largest issuer of credit cards for retail stores. The Royal Bank of Scotland is also reportedly preparing an offering of its U.S. subsidiary, RBS Citizens Financial Group Inc., the 24th-largest U.S. bank holding company.
- **China.** In 2013, after a two-year hiatus, several Chinese-based businesses conducted successful IPOs on U.S. exchanges, and more than two dozen Chinese companies reportedly may file for U.S. IPOs this year. Investor enthusiasm for these Chinese offerings seems to outweigh concerns with recent disappointing economic data on China, as well as previous accounting scandals and corporate governance practices that caused many U.S.-listed Chinese firms to be delisted several years ago.

As previously mentioned, the red-hot U.S. IPO market has been driven greatly by smaller offerings. However, now that China e-commerce giant Alibaba Group has confirmed it plans to file an IPO on the U.S. market, investor enthusiasm for offerings is expected to increase even further. With media estimates of a mega-offering in the \$15 billion to \$20 billion range, Alibaba would rival the largest offerings in history.

Given all of these factors, the U.S. IPO market appears to be well on its way to topping the promising performance of 2013 and may approach levels not seen since the turn of the century.



"It is difficult to overstate the impressive performance of the U.S. IPO market in the first quarter of the year. When you consider that Q1 growth has been accomplished on the backs of smaller offering companies and that significantly larger deals are on the near horizon, the outlook for the remainder of 2014 appears to be quite promising."

– Wendy Hambleton, 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 28-30
ACG InterGrowth 2014
 Aria Resort & Casino
 Las Vegas, Nevada

MAY

May 13 – 14
VentureScape (NVCA Annual Meeting)
 Westin San Francisco Market Street
 San Francisco, California

May 13 – 14
IFC/EMPEA Global Private Equity Conference
 Ritz Carlton
 Washington, DC

May 30

SEC Institute – IPO: Your Guide to Going Public
 PLI California Center
 San Francisco, California

JUNE

June 9 – 12
SuperReturn U.S. 2014
 Renaissance Boston Waterfront Hotel
 Boston, Massachusetts

June 10 – 11
Venture Capital Investing Conference
 The Palace Hotel
 San Francisco, California



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