FALL 2013
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THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

INITIAL OFFERINGS

ALL SYSTEMS GO FOR IPOs

THROUGH THREE QUARTERS, MOST IPOs ON U.S. EXCHANGES SINCE 2000

As we enter the final quarter of 2013, the market for initial public offerings (IPOs) of stock in the United States is the healthiest it has been in some time. Through September, there have been 152 IPOs on U.S. exchanges, an increase of better than 53 percent from the same time in 2012. After back-to-back quarters of heavy offering activity, the U.S. IPO market is on pace to reach 200 deals, a level reached just twice (2004, 2007) since 2000.*

Moreover, the 191 IPO filings through the first nine months of the year represent an increase of 67 percent from the level of one year ago. This is an impressive achievement when one considers that the confidential filing rules enacted last year under the JOBS Act tend to mask the true size of the IPO pipeline.

Proceeds on U.S. exchanges are actually down by approximately 8 percent from last year's level through nine months, but this is a misleading data point attributable to the $16 billion Facebook IPO that generated 46 percent of last year's nine month proceeds. If Facebook is excluded from last year's figures, U.S. proceeds in 2013 are actually up 70 percent year-over-year.

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

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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.

For more information on BDO's Capital Markets services, please contact one of the regional leaders below:

JAY DUKE, Dallas
214-665-0607 / jduke@bdo.com

LEE DURAN, San Diego
858-431-3410 / lduran@bdo.com

BRIAN ECCLESTON, New York
212-885-8220 / beccleston@bdo.com

LEE GRAUL, Chicago
312-616-4667 / lgraul@bdo.com

WENDY HAMBLETON, Chicago
312-616-4657 / whambleton@bdo.com

CHRISTOPHER TOWER, Orange County
714-668-7320 / ctower@bdo.com

2013 U.S. IPO Trend Tracker Through Q3

	2013	2012	+/-	10 yr. high	10 yr. low	10 yr. avg.
IPOs	152	99	+53.5%	152 (2013)	30 (2008)	105
Proceeds	$31.8B	$34.7B	- 8.4%	$35.4B (2007)	$8.9B (2009)	$25.8B
Avg. Deal	$209M	$353M*	- 40.7%	$813M** (2008)	$147M (2010)	$246M
Filings	191	114	+ 67.5%	270 (2004)	53 (2009)	179

*Heavily impacted by $16 billion Facebook IPO
**Heavily impacted by $17.9 billion VISA IPO

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

"We haven't experienced this level of investor optimism since prior to the financial crisis. The consistent rise of the stock market overall and the strong performance of IPOs specifically have inspired a feeling of confidence in investors that makes them more willing to take a chance on investing in businesses conducting an initial offering."

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

▶INDUSTRIES

A booming stock market and IPOs from technology businesses tend to go hand-in-hand in the U.S., therefore tech IPOs are often viewed as a key indicator of investor confidence. This trend has led to some concern that the technology sector – the U.S. IPO leader for six of the past seven years – isn't in its traditional place at the front of the offering parade.

However, these concerns are exaggerated. Certainly, the abundance of private financing in Silicon Valley has led some IPO candidates in the tech industry to defer their IPO plans, but the availability of private capital provides these companies with additional time to hone their strategies and build their business. In the long-term, they will be much better prepared for their eventual offering which translates to better-performing deals.

On the contrary, tech IPOs still represent approximately 20 percent of total offerings in 2013 and the sector isn't far off of the pace it has maintained in recent years. In reality, the difference this year is the increase in offering activity in the healthcare and financial sectors, not a precipitous drop in tech deals.

One of the strengths of this year's IPO market is the wide breadth of industries represented among the offerings. The healthcare, financial, technology, energy, capital goods and consumer sectors have each reached double digits in offerings, with the former three representing more than two-thirds of total U.S. deals. A market that enjoys strength in a wide range of industries, is healthier and less likely to falter.

"The health of the U.S. IPO market in 2013 is even more impressive when you consider that it hasn't had the benefit of a Visa, Facebook, GM or other major offerings that have generated a great deal of buzz and pumped up proceeds. For the most part, this year's market has been driven by the emerging businesses that will add jobs and make investments with the new funds – all positives for the overall economy."

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

▶Q4 FORECAST

Given the steady performance of the stock market – the Dow Jones Industrial Average was up 15.5 percent through Q3 – and the healthy pipeline of potential offering businesses, the pace of deals on U.S. exchanges is unlikely to slow any time soon. Looking forward, there are plenty of additional reasons to remain bullish on U.S. IPOs:

- **Positive Performers.** U.S. IPOs returned 33 percent from their offering price through Q3. This success is likely to spur other businesses considering an IPO to move forward with their offering.

- **Cash Flowing to Mutual Funds.** For the first time since the financial crisis, investors are pouring money back into stock-focused mutual funds and money managers will be drawn to the returns produced by the newly offered businesses.

- **JOBS Act.** More than 70 percent of this year's offerings have taken advantage of the JOBS Act's confidential filing provision. Although there is no way of knowing how many of these businesses would have filed publicly under the old rules, the ability to file confidentially and move forward publicly just three weeks prior to pricing the offering seems to have played a central role in the spike in IPOs this year. This should encourage more emerging businesses to privately "test the wind" for a potential offering.

- **Bigger Deals on Horizon.** The success of the 2013 U.S. IPO market has been built on deals from small, emerging businesses, many of which are far from household names. However, with Twitter, Chrysler and Hilton on the Q4 horizon, and news of a potential U.S. offering of China e-commerce giant, Alibaba, in 2014, the "buzz" level for IPOs will be increasing dramatically in the coming months. Many individual investors who have steered clear of IPOs after the Facebook fiasco are likely to be lured back into the market. Historically, smaller investors are drawn to offerings from widely recognized brands with products and services they are familiar with.

"Despite research showing diminishing belief among capital markets executives regarding the JOBS Act's ability to increase U.S. IPO activity, it seems clear that the Act has begun to positively impact the market. More than 70 percent of 2013 U.S. offerings are emerging businesses that have taken advantage of the JOBS Act's confidential filing provision. Although there is no way of knowing how many of these businesses would have filed publicly under the old rules, the ability to file confidentially and address any regulator concerns in private, while limiting the time competitors can scrutinize their financials, clearly has swelled the number of potential offering businesses – which logically leads to more IPOs."

– Wendy Hambleton, Partner in the Capital Markets Practice of BDO USA

THREAT MONITORING

Despite all of these positive signs for U.S. IPOs in the coming months, there are always potential threats to the market that should be monitored.

Although it failed to act in September, the Federal Reserve has sent out clear signals that it hopes to pare back monetary stimulus as soon as practicable. Although this will not be welcome news for investors when it occurs, the Fed's intentions have been so well telegraphed that the market should be in position to digest the news with minimal disruption.

More troubling are the ongoing negotiations (or lack thereof) in Congress over whether to extend the U.S. debt limit by the mid-October deadline. If the ceiling isn't raised, the Treasury Department will not be able to pay bills and the U.S. could default on its bonds. Should this occur, U.S. debt will likely be downgraded and both U.S. and foreign financial markets could take a significant dive.

Given the enormity of the potential consequences, most observers expect a compromise solution to be reached prior to the deadline, but the intransigence of Congress should not be underestimated.

MARK YOUR CALENDARS…

CAPITAL MARKETS EVENT SCHEDULE *(October – December)*

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

OCTOBER

October 7-9
Thomson Reuters Venture Alpha West
Ritz Carlton
Half Moon Bay, California

October 14-15
ACG Deal Crawl 2013
Westin Hotel/Ritz-Carlton
Charlotte, North Carolina

October 14-16
Crowdfunding Convention & Bootcamp
The M Resort Spa & Casino Las Vegas
Las Vegas, Nevada

October 22
2013 Midwest ACG Capital Connection
McCormick Place
Chicago, Illinois

October 23-24
NVCA Corporate Venture Group Fall Summit 2013
Grand Del Mar Hotel
San Diego, California

NOVEMBER

November 6-7
2013 Florida ACG Capital Connection
Hyatt Regency Grand Cypress
Orlando, Florida,

DECEMBER

December 13
MIT Venture Capital Conference
Marriott Cambridge
Cambridge, Massachusetts

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