

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

# INITIAL OFFERINGS



## U.S. IPO MARKET REBOUNDS STRONGLY IN FIRST HALF OF 2017

The U.S. market for initial public offerings (IPOs) has rebounded impressively in the first half of 2017, already surpassing 2016's full year total for proceeds raised and reaching the midpoint of the year with a flurry of 8 IPO pricings in the final week of June - the busiest offering week of the year.

After experiencing a major downturn last year, when potential offering companies stepped back from the IPO market amid high volatility and political uncertainty, offering activity (+88%), proceeds (+230%) and filings (+60%) are up dramatically year-over-year through the first six months of 2017.

Moreover, offering activity appears to be building momentum, with the number of IPO pricings more than doubling from Q1 (25) to Q2 (52). \*

Much of the turnaround can be attributed to a rising stock market with historically low volatility and promises of deregulation and tax reform from the new administration and Republican-controlled Congress that have combined to create a more welcoming economic climate.

The positive performance of 2016 and 2017 IPOs – delivering double digit returns on average – has provided additional incentive to businesses considering an offering.

\* 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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“Although the flurry of activity prior to the July 4 holiday break could be a sign that some companies are rushing to go public while there’s a window in the market, the steady growth in offerings – more than doubling from Q1 to Q2 - and the positive returns during the initial six months of 2017 could be a sign that the new-issue market is beginning a sustained rebound following the dramatic downturn of 2016,” said **Christopher Tower, Partner in the Capital Markets Practice of BDO USA.**

## 2017 U.S. IPO MARKET TRENDING UP THROUGH Q2

	2017	2016	+/-
IPOS	77	41	+ 88%
PROCEEDS	\$20.5B	\$6.2B	+ 230%
AVG. DEAL	\$266M	\$151M	+ 76%
FILINGS	91	57	+ 60%

Source: Renaissance Capital, Greenwich, CT ([www.renaissancecapital.com](http://www.renaissancecapital.com))

## 2017 U.S. IPO MOMENTUM

Month	Pricings	Proceeds	Avg Size
January	9	\$4.1B	\$455M
February	7	\$0.7B	\$100M
March	9	\$5.1B	\$567M
Q1 SUMMARY	25	\$9.9B	\$396M
April	20	\$3.8B	\$190M
May	17	\$3.5B	\$206M
June	15	\$3.3B	\$220M
Q2 SUMMARY	52	\$10.6B	\$204M
Six Month Totals	77	\$20.5B	\$266M

Source: Renaissance Capital, Greenwich, CT ([www.renaissancecapital.com](http://www.renaissancecapital.com))

## INDUSTRIES

A strength of the current U.S. IPO market is the wide breadth of industries represented among the offerings companies during the first half of 2017. The healthcare and technology sectors have been the leaders in offerings, but numerous other industries – energy, financial, industrial, real estate and consumer - have generated several offerings in 2017.

A market that enjoys broad strength in multiple industries is healthier and less likely to falter. Below is a breakdown of 2017 IPOs by sector:

Industry	# of Deals
 Healthcare	18
 Technology	16
 Energy	11
 Financial	10
 Industrials	8
 Consumer discretionary	5
 Real Estate	5
 Telecom Services	2
 Consumer staples	1
 Materials	1

Source: Renaissance Capital, Greenwich, CT ([www.renaissancecapital.com](http://www.renaissancecapital.com))

## FORECAST

Although this year's dramatic year-over-year jump in offerings, proceeds and filings is partially attributable to the depths the market reached in 2016, the momentum in pricing activity and the increased deal size has offerings and proceeds on pace to exceed the annual averages for offerings (149) and proceeds (\$40.2 billion) for the past decade.

With market indices near all-time highs, continued low volatility and shares of newly public companies performing well, the IPO forecast for the remainder of 2017 looks bright as capital markets are largely receptive to offerings from a wide breadth of industries. Absent an unforeseen shock to the market, the pace of offerings should continue to accelerate during the second half of the year.

At the close of Q2, the Securities and Exchange Commission announced an additional incentive to boost the number of businesses going public. Beginning July 10, all companies considering an initial public offering will be able to file their registration statements confidentially with the SEC until 15 days prior to the commencement of their roadshow, when offering businesses meet with prospective investors.

This is an extension of a provision of the 2012 JOBS Act that was designed to encourage companies with less than \$1 billion in annual revenues to go public. The provision allows companies considering an offering to keep their financing intentions, business strategy and operating performance private while the SEC reviews their prospectus, thereby providing them with more flexibility about when to go public and more time to work out any regulatory kinks.



"The SEC's move to extend the JOBS Act's confidential filing provision to all offering companies appears to be the latest attempt by regulators to address a decline in U.S. IPOs. While this is certainly a welcome move to encourage more potential offerings, it also limits the time investors have to study the offering prospectus," said **Jeff Jaramillo, SEC Practice Leader for BDO USA**.

"The continued wide availability of private financing and the very active mergers and acquisitions market will remain major obstacles to growing the ranks of publicly traded businesses."

While the IPO forecast for 2017 is very promising right now, the outlook can change swiftly in the very connected world we live in. Surprising political outcomes and deadly terrorist attacks in various countries during the past year have demonstrated how international news can swiftly impact U.S. markets and introduce a level of volatility that is not conducive for businesses considering a public offering.



“Despite offerings and proceeds demonstrating strong growth in 2017, the IPO market will remain well below its most recent high-water mark of 2014 when it raised more than \$85 billion in proceeds,” said **Ted Vaughan, Partner in the Capital Markets Practice of BDO USA**. “Some of the most high-profile startups are still staying away from the public market, reflecting concerns about whether they can match the rich valuations placed on them by private investors. Thus far, the uneven performance of the Snap IPO has reinforced those concerns. Until these fears are allayed, don’t expect to see Uber, Airbnb and some of the other high-profile “unicorns” coming to market in the near term.”

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