

THE NEWSLETTER OF THE BDO CAPITAL MARKETS PRACTICE

# INITIAL OFFERINGS



## U.S. IPOs ON PACE FOR BEST YEAR SINCE 2000

### U.S. IPO PROCEEDS HAVE ALREADY SURPASSED STRONG TOTALS OF 2013

**F**ollowing the record-setting offering of Alibaba, the 2014 U.S. market for initial public offerings is shaping up as one of the best years of all-time. As we enter October, U.S. exchanges have posted the highest three-quarter totals for offerings, proceeds and filings in more than a decade.

Through September, there have been 205 U.S. IPOs completed, an increase of more than 35 percent from the same time in 2013. Those deals have raised \$68.5 billion in proceeds, a figure that already surpasses the proceeds for all of last year (\$54.9 billion) and is more than double (+115%) 2013's totals through three quarters. If it maintains its current pace, the 2014 U.S. IPO market should

achieve its highest number of offerings and total proceeds since 2000, when 406 IPOs generated \$96.9 billion.\*

The 298 IPO filings through the first nine months of the year represent an increase of 58 percent from the level of one year ago. This is a level of filings that was last visited in 2000 (290). This achievement is even more impressive when one considers that confidential filing rules enacted in 2012 under the JOBS (Jumpstart Our Business Startups) Act tend to mask the true size of the IPO pipeline.

The average IPO has returned 14 percent from its offering price in 2014. That is significantly

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

“From the outset, the 2014 U.S. IPO market has built on the strong momentum established in 2013. The number of offerings in both the first (64) and second (83) quarters were the highest of the decade, as were the total proceeds (\$37.1 billion) generated in the third quarter. Given the reception investors demonstrated for the Alibaba IPO and several subsequent offerings that immediately followed at the conclusion of Q3, all signs point to a strong finish to a very strong year.”

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

below last year's average return of 38 percent, but well above the returns for the Dow Jones Industrial Average (3%) and S&P 500 (7%) this year.

Through three quarters U.S. IPOs have averaged \$334 million in size, 60 percent larger than the average IPO in 2013 (\$209 million). However, this figure is misleading. If you omit Alibaba's record setting \$21.8 billion offering (\$25 billion with additional follow-on shares), the average IPO in 2014 drops to \$229 million in size – a figure that more accurately reflects the large role that smaller businesses have played as the main drivers of this year's IPO market.

This trend can largely be attributed to the JOBS Act, which allows companies with less than \$1 billion in annual revenue to forego some of the more stringent filing requirements when registering their offerings. These more lenient rules for emerging businesses, along with a long-running bull market, have played a major role in the success of the post-financial crisis IPO market.

## ▶INDUSTRIES

For the second consecutive year, one of the strengths of the U.S. IPO market is the wide breadth of industries represented among the offerings companies. The healthcare sector – spurred by multiple biotech and pharmaceutical deals – has been the clear leader in offerings (78), but numerous other industries – technology (44), financial (24), energy (22) and consumer (11) – have generated double digits in offerings in 2014. A market that enjoys strength in multiple industries is healthier and less likely to falter.

## ▶Q4 FORECAST

Given the positive performance of IPOs relative to traditional stock market benchmarks, the positive effect of the JOBS Act and the healthy pipeline of potential offering businesses, the IPO forecast for Q4 looks very promising.

The following are additional reasons to remain bullish on U.S. IPOs moving forward:

- **Risk Appetite.** Alibaba's record offering and the subsequent successful \$3 billion offering of Citizen's Bank underscore financial markets' appetite for new listings.

- **Economic Indicators.** The economy is expanding moderately, companies are posting higher earnings and the Federal Reserve isn't rushing to raise interest rates. This should continue to make the underlying case for equities strong for investors.
- **Hedge Funds & Mutual Funds.** With the returns of many hedge funds and mutual funds trailing the S&P 500 this year, they are expected to buy stocks more broadly during the remainder of the year as they scramble to catch up. IPOs – and the first day pops they can deliver – are a favored way for these funds to boost their performance.
- **Post Alibaba Push.** The size of the Alibaba deal caused many issuers to hold off coming to market in August and September for fear of being lost in the shuffle. With Alibaba in the rear view mirror, these issuers will look to price while the market remains hot, which should accelerate offerings in the coming weeks.

## 2013 U.S. IPO Trend Tracker Through Q3

	2014	2013	+/-	10 yr. high	10 yr. low	10 yr. avg.
IPOs	205	152	+ 35%	205 (2014)	30 (2008)	111
Proceeds	\$68.5B	\$31.8B	+115%	\$68.5B (2014)	\$8.9B (2009)	\$29.9B
Avg. Deal	\$334M*	\$209M	+60%	\$813M** (2008)	\$147M (2010)	\$269M
Filings	298	188	+58%	298 (2014)	53 (2009)	182

\*Heavily impacted by \$21.8 billion Alibaba IPO

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

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

“There has been a good deal of celebrating Alibaba’s record-setting IPO, but less attention has been paid to just how much of a hurdle this offering was for the 2014 IPO market. From January through July offerings were pricing at a rate of better than 22 per month, but in the weeks leading up to the Alibaba IPO, that pace slowed to a crawl as other potential offering companies postponed their pricings fearing investors and bankers would be too focused on Alibaba to give their offerings the proper attention. Had Alibaba performed poorly, these businesses would likely have stayed on the sidelines and derailed one of the best years ever for IPOs. That is what happened in 2012 when the much anticipated Facebook IPO, hampered by technical glitches and an inability to maintain its initial share price, caused the flow of offerings to drop dramatically for months. Fortunately, the Alibaba IPO was executed flawlessly and those postponed offerings should be eager to move ahead with their deals in Q4.”

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

## ► POTENTIAL THREATS

Despite the sunny forecast, the market for both old and new stocks is always vulnerable to potential headwinds that could arise by the end of the year. If the U.S. grows faster than expected, with job growth exceeding expectations, investors are likely to get nervous that the Federal Reserve may raise rates. Similarly, any negative developments on the global front, such as a sharp slowdown in China, could prompt money managers to sell stocks and diminish the allure of IPOs.

## IPOs on the Horizon

*The following are potential U.S. IPOs of note for Q4.*

Offering Company	Industry	Potential Size
Box	Cloud Storage	\$250 million
Forward Pharma	Biotech	\$200 million
Paramount	REIT	\$2.5 billion
Shell Midstream Partners	Energy	\$750 million
Univar	Chemical Distributor	\$1 billion

## 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 6 – 8  
**Venture Alpha West**  
 Ritz Carlton  
 Half Moon Bay, Calif.

October 7 – 8  
**ACG M&A East**  
 Pennsylvania Convention Center  
 Philadelphia, Pa.

October 20 – 21  
**2014 Midwest ACG Capital Connection**  
 McCormick Place  
 Chicago, Illinois

October 23 – 25  
**Crowdfunding Convention & Bootcamp**  
 Westin Resort & Spa Lake Las Vegas  
 Las Vegas, Nev.

#### NOVEMBER

November 6  
**NVCA Corporate Venture Fall Summit**  
 Hyatt Regency Huntington Beach  
 Huntington Beach, Calif.

November 18- 19  
**2014 Florida ACG Capital Connection**  
 Grand Hyatt Tampa Bay  
 Tampa, Fla.

#### DECEMBER

December 12  
**MIT Venture Capital & Innovation Conference**  
 MIT Sloan Sales and Business  
 Development Club  
 Boston, Mass.



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