

2012 BDO IPO HALFTIME REPORT



Initial public offering (IPOs) activity on U.S. exchanges got off to a healthy start in 2012. The 42 IPOs priced in the first quarter represented the most deals in Q1 since 2007 (45) and activity was up 31 percent year-over-year. That momentum continued through April, but in early May a variety of economic concerns brought increased volatility to the stock market and activity came to a halt for more than five weeks following the disappointing Facebook offering on May 18. Finally, in the last week of June, four IPOs priced to break the ice of the frozen market, but a great deal of uncertainty remains.

Overall, U.S. IPO activity was down six percent from the first half of 2011. While the \$28.6 billion in IPO proceeds raised on U.S. exchanges through June is a healthy increase (12%) from last year and the largest first half figure in the past decade, this can chiefly be attributed to the \$16 billion Facebook IPO conducted in May. Excluding Facebook, IPO proceeds on U.S. exchanges were \$12.6 billion, a drop of more than 50 percent from 2011.

► WHERE DO WE GO FROM HERE?

According to the [2012 BDO IPO Halftime Report](#), there is little agreement among capital markets executives at leading

investment banks when asked to forecast U.S. IPOs during the remainder of 2012. The bankers are relatively evenly divided among those that predict an increase (33%) in the number of IPOs on U.S. exchanges, and those that are forecasting flat (36%) or negative growth (31%). Overall, banker sentiment suggests that there may be virtually no net change (0.2%), with the latter half of 2012 matching the first half in the number of U.S. IPOs. They anticipate these offerings will average \$221 million in size, which projects to more than \$44 billion in total IPO proceeds on U.S. exchanges in 2012.

When asked what will be the greatest source of IPOs in the second half of the year, almost

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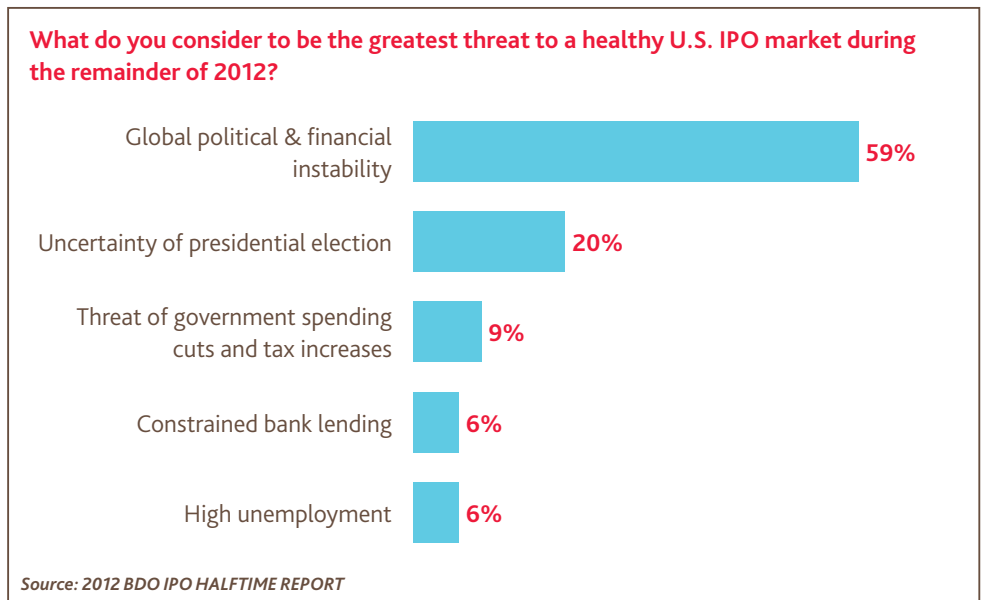
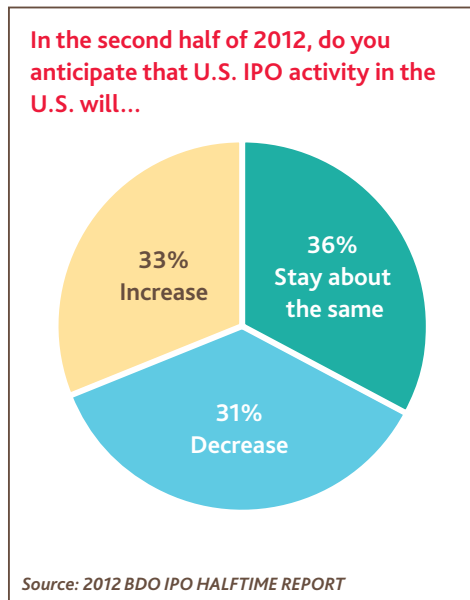
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“IPO activity on U.S. exchanges increased steadily during the first quarter of the year and carried solid momentum through April before renewed concerns with the European debt crisis, negative U.S. economic data and the problematic Facebook IPO sent markets spiraling downward and brought new offerings to a halt. Based on this survey, the capital markets community is clearly concerned that economic turmoil overseas will keep markets volatile, making for a challenging time to conduct initial offerings.”

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



two-thirds (65%) of capital market executives cite either venture capital (36%) or private equity (29%) portfolios. Owner-managed, privately-held businesses (20%) and spinoffs and divestitures (15%) are the other sources identified by the bankers.

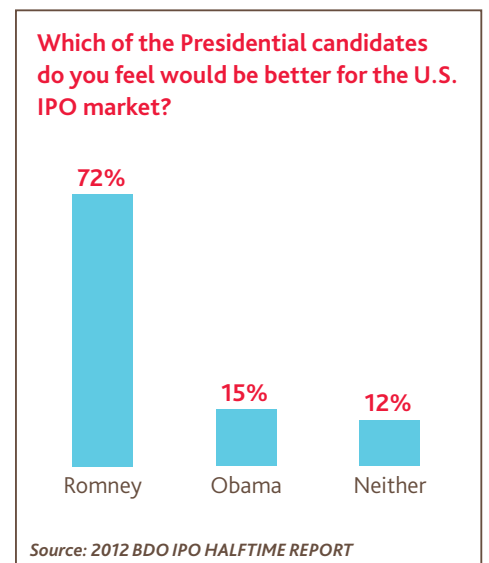
Global political and financial instability (59%) was, by far, the most often cited threat to the U.S. IPO market in the second half of the year. The uncertainty of the presidential election (20%), the threat of government spending cuts (9%), constrained bank lending (6%) and continued high unemployment (6%) were the other threats mentioned.

When asked which of the U.S. presidential candidates would be better for the U.S. IPO market, almost three-quarters (72%) of the capital markets community chose Republican challenger, Mitt Romney, over President Obama (15%). The remaining bankers (12%) expressed no preference between the two

candidates in terms of impact upon the U.S. IPO market.

U.S. IPOs have averaged \$392 million in 2012, but only \$175 million if you exclude the Facebook offering. This is considerably smaller than 2011 when deals averaged \$290 million. Capital markets executives identified several contributing factors for this trend. The most frequently cited factor is the absence of major deals, other than Facebook, to pump up the average (38%). However, similar numbers of bankers cited the much smaller deals being churned out by PE firms in 2012 (35%) and valuation pressures that forced offering businesses to cut prices (27%).

When asked to estimate the size of the average IPO for the remainder of the year, the bankers prediction came in at \$221 million. This net increase of \$46 million, absent Facebook, may reflect at least some optimism about larger deal sizes for the balance of 2012.



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“The global economy has been a double-edged sword in the eyes of investment bankers. While global instability is clearly viewed as the greatest threat to the U.S. IPO market, the European debt crisis - and its impact on European offerings - is seen as a key contributor to the rise of U.S. exchanges as the global leader in IPO proceeds raised. The technology sector is the other main driver in the rise of the U.S. in the global IPO market, as capital markets executives cite the strength of offerings from innovative U.S. tech businesses.”

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

▶ U.S. WILL CONTINUE TO LEAD IPO PROCEEDS

In a continuation of a trend that began in 2011, U.S. exchanges are playing a larger role in the global IPO marketplace in terms of total proceeds. During the first six months of 2012, the U.S. accounted for more than half (53%) of all global IPO proceeds.

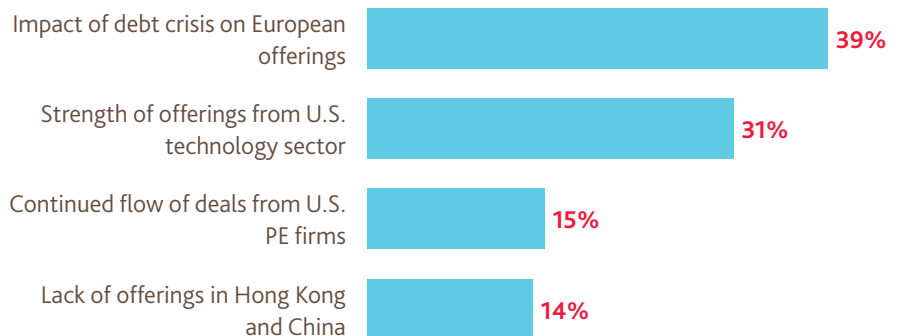
When asked to identify the main reason for the sharp increase in the U.S. share of global IPO proceeds, the bankers emphasized the impact of the debt crisis on European offerings (39%) and the strength of offerings from the U.S. technology sector (31%), with comparatively less impact being associated with the continued flow of deals from U.S. PE firms (15%) and the lack of offerings from Hong Kong and China (14%).

Forty-three percent of the investment banking community see U.S. exchanges continuing to increase their percentage of global IPO proceeds during the remainder of the year. More than a third (36%) believe it will remain steady and approximately one-fifth (21%) see the U.S. share declining in the second half of 2012.

▶ INDUSTRY FORECAST

Thus far in 2012, the technology sector has led all industries in U.S. IPOs and almost three-quarters (73%) of investment bankers predict even more tech offerings during the second half of the year. A majority see the numbers of IPOs from the energy (61%), healthcare (55%) and biotech (54%) verticals increasing as well. No other industries came close to receiving a majority of support for the likelihood of growth in IPOs during the remainder of the year (see full chart to the right).

What has had the greatest impact on the U.S. increasing its proportion of total global IPO proceeds in 2012?



Source: 2012 BDO IPO HALFTIME REPORT

Proportions of capital markets executives expecting IPO activity to increase, remain stable or decrease in specific industries during remainder of 2012:

Industry	Increase	Flat	Decrease
Technology	73%	18%	9%
Energy/Natural Resources	61%	23%	16%
Healthcare	55%	27%	18%
Biotech	54%	36%	10%
Real Estate	38%	38%	24%
Media/Telecom	33%	41%	26%
Financial	27%	39%	34%
Industrial/Manufacturing	25%	50%	25%
Consumer/Retail	16%	43%	41%

Source: 2012 BDO IPO HALFTIME REPORT

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▶ PRE-IPO MARKETPLACES

Despite SecondMarket's recent announced layoffs of ten percent of its workforce, more than two-thirds (69%) of I-bankers believe private, pre-IPO marketplaces are here to stay. A majority (66%) of the investment banking community feel these private marketplaces are having a positive influence on the U.S. IPO market, but that is a significant drop from last year when more than three-quarters (79%) of the bankers were positive towards the pre-IPO markets.

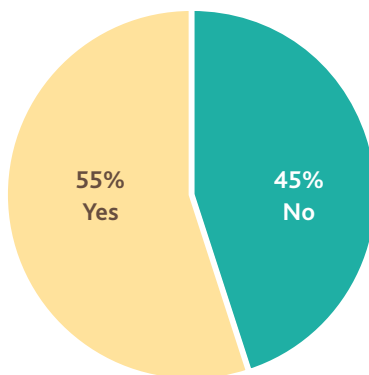
▶ WILL JOBS ACT INCREASE U.S. IPOs?

Capital markets executives at leading investment banks have conflicting views of the recently enacted JOBS (Jumpstart Our Business Startups) Act. A narrow majority (55%) of I-bankers believe the JOBS Act will be successful in increasing the number of businesses going public on U.S. exchanges. However, that growth will come with one major drawback as an identical majority (55%) of capital markets executives believe the new law's rollback of regulatory requirements for these newly public companies increases the chances of scandals at these businesses.

Solid majorities of the capital markets community suggest that there will be a "positive impact" on the U.S. IPO market when considering the JOBS Act's provisions that repeal the ban on I-banks from publishing analyst research on IPOs they are marketing, provide a five-year exemption from Sarbanes-Oxley mandated audits of internal controls and increase shareholder thresholds for private businesses. By more narrow majorities, there is also support for the likelihood of a positive impact from the new law's provisions to allow crowdfunding and confidential SEC filings.

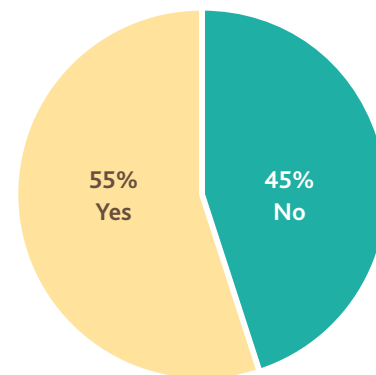
An overwhelming majority (80%) believe allowing I-bank analysts to publish research on offerings being marketed by their investment banking colleagues is a positive for the IPO market. Just under one-fifth (18%) of the bankers think it will have a negative impact. This practice was previously banned due to concerns that it opened the door to market manipulation.

One of the goals of the recently enacted JOBS Act is to increase the number of U.S. IPOs by easing regulations and associated costs for emerging growth companies conducting offerings. Do you believe this new law will be effective in increasing the number of businesses going public?



Source: 2012 BDO IPO HALFTIME REPORT

Critics of the JOBS Act believe the rollback of regulatory requirements for these newly public businesses opens the door to market manipulation and fraud. Do you believe the JOBS Act increases the chances of scandals at IPO businesses?



Source: 2012 BDO IPO HALFTIME REPORT

Percentage of capital markets community that believe various elements of the JOBS Act will have positive, negative or no impact on U.S. IPO Market:

	Positive	Negative	No Impact
Allow I-bank analysts to publish research on IPOs marketed by their own firms	80%	18%	2%
Five-year SOX exemption (On audits of internal controls)	74%	23%	3%
Increased shareholder threshold for private companies (From 500 to 2000)	66%	30%	4%
Crowdfunding (Can raise up to \$1 million via Internet)	58%	32%	10%
Confidential SEC filings (Can test waters up to 21 days prior to road show)	52%	40%	8%

Source: 2012 BDO IPO HALFTIME REPORT

Almost three-quarters (74%) of the I-bankers feel the five year SOX exemption - emerging growth companies are no longer required to have an external audit of internal controls over financial reporting as required under Sarbanes-Oxley Act (SOX) of 2002 - will have a positive impact on the growth of U.S. IPO activity. Just under a quarter (23%) think the SOX exemption will have a negative impact and three percent do not see it impacting U.S. IPO activity at all.

The JOBS Act increased the maximum number of shareholders a private company can have before it is required to register with the SEC. The threshold was increased from 500 to 2000. Two-thirds (66%) of capital markets executives believe this element of the law will have a positive impact on the IPO market, compared to just under one-third who predict a negative impact. Four percent of the bankers feel it will have no impact.

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“The JOBS Act was the subject of much debate before it was signed into law and, based on our survey, the investment banking community seems to agree with both the law’s proponents and detractors. Capital markets executives believe many of the new law’s provisions will have the desired impact of increasing IPO activity, but they also acknowledge that some of the very same provisions open the door to potential scandals. Bankers are particularly divided on how the Act’s relaxed disclosure requirements may impact IPO pricings and whether the confidential SEC filings will have the desired effect of increasing offerings.”

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

A majority (58%) think allowing start-up businesses to “crowdfund” - raising up to \$1 million annually from small investors via the Internet while remaining exempt from the standard SEC registration process - will have a positive impact on the U.S. IPO market. Approximately one-third (32%) believe crowdfunding will have a negative impact and a small minority (10%) say it will have no impact at all.

The investment banking community was split when it came to the impact of a new rule that allows prospective offering companies

to confidentially register an IPO with the SEC before deciding to move ahead with the offering. Just over half (52%) of the bankers think this will positively impact the U.S. IPO market, but a strong minority (40%) think it will have the opposite effect. A much smaller amount (8%) don't see it having any impact.

A provision of the JOBS Act allows emerging growth companies to provide less information and requires fewer financial disclosures in their IPO documents and subsequent filings. Although this may make it easier to go public, I-bankers were relatively split on how this

provision will impact IPO pricings. Although a slight majority (52%) are not concerned about the impact of the JOBS Act on IPO pricings, this is considered a legitimate concern by the balance of the bankers. Nearly half (48%) feel this lack of information will ultimately have a negative impact on IPO pricings.

The *2012 BDO IPO Halftime Report* examined the opinions of 100 capital markets executives at leading investment banks regarding the market for initial public offerings in the United States during the second half of the year. The survey was conducted in June of 2012.

ABOUT THE SURVEY

The *BDO IPO Outlook Survey* and the *BDO IPO Halftime Report* are national telephone surveys conducted by Market Measurement, Inc., an independent market research consulting firm, on behalf of the Capital Markets Practice of BDO USA. Executive interviewers spoke directly to capital markets executives, using a telephone survey conducted within a scientifically-developed, pure random sample of the nation’s leading investment banks.

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