A Closer Look at the IPO Pipeline: What Lies Ahead

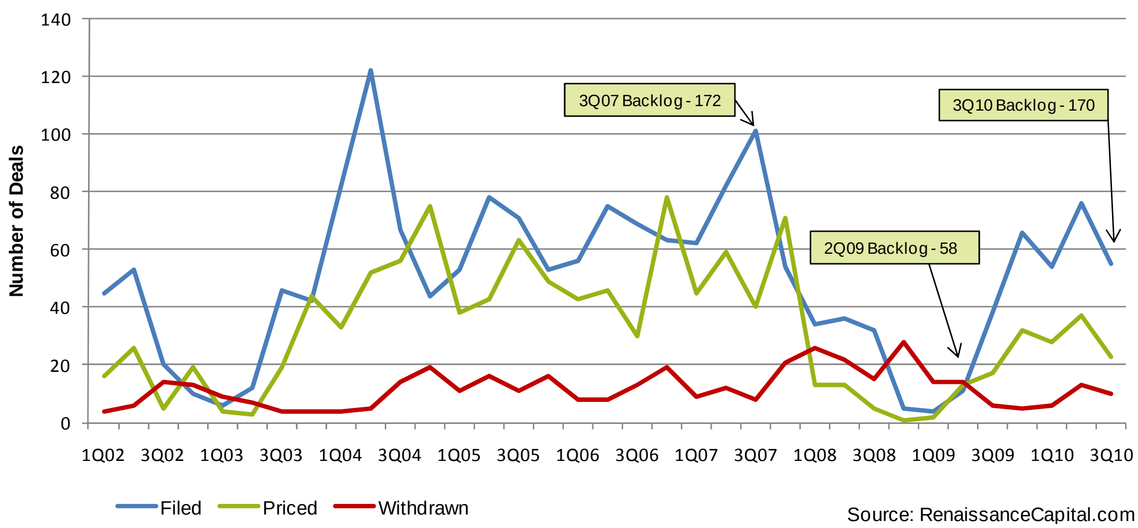
September 13, 2010

With 87 IPOs completed year-to-date in 2010, easily exceeding the 64 deals completed in all of 2009, the US IPO market is starting to resemble its pre-Great Recession self. High profile filings from General Motors and Skype drew a great deal of attention to the IPO space toward the end of a tumultuous summer, but these and other marquee registrations only represent the tip of the iceberg in a swollen IPO backlog. In the US, new IPO filings have more than doubled the rate of pricings so far this year, and the pipeline has grown to include 170 companies seeking to raise nearly $60 billion in proceeds. For historical context, the last time the backlog exceeded 170 companies was September 2007, which is still well below the 387 companies in queue toward the tail end of the tech bubble (May 2000). On a global basis, total proposed proceeds exceed $120 billion, with more than 50 companies looking to raise roughly $60 billion on international exchanges by the end of 2010. Not only has the number of prospective US issuers reached pre-crisis levels, there is also an important change in composition; an uptick in filings from venture capital-backed firms, led by the tech and healthcare sectors, has the US IPO market primed for the return of risk appetite.

A closer look at the IPO pipeline reveals:

- By issuers, the US pipeline[1] has grown by 81% in the last year
- An increasing proportion of VC-backed IPO filings, which now account for 25% of the overall pipeline
- Technology and health care represent a rising share of the backlog, while financials and energy declined
- Numerous big name PE-backed firms look to the IPO market to deleverage
- Large offerings are teed up in every region around the globe; Asia looks to be the most active

Quarterly Pipeline Activity: 2002-Present



Source: RenaissanceCapital.com

[1] Pipeline includes all deals that have filed or amended an IPO registration statement within the last two years.

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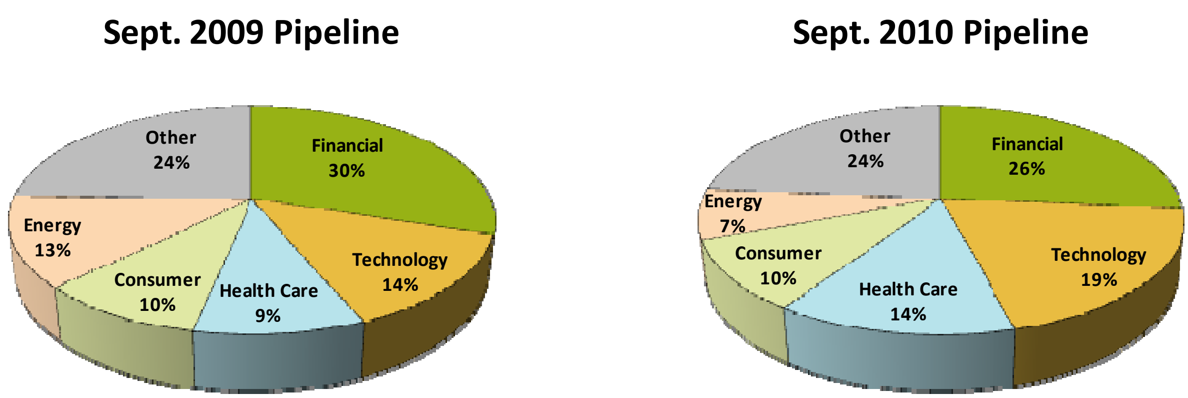
US Pipeline: What a Difference a Year Makes

Since September 2009, the US IPO pipeline has grown from 94 to 170 potential issuers (+81%). Again, this is largely due to a sharp increase in filing activity; the 184 year to date new filings in 2010 have outnumbered IPO pricings two-to-one, and are up nearly four-fold from the 47 in the comparable period in 2009. 76 companies filed to go public during the 2Q10, the highest quarterly rate in nearly three years, and year-to-date withdrawals have declined by 29% (29 versus 41). Broken out by industry, technology and healthcare issuers have grown to represent a combined 33% of the overall pipeline, up from 23% at the same point last year. Though financial firms represent a leading 26% of potential issuers, this is down from 30% in September 2009, and mortgage REIT filing activity has slowed thanks in part to a less accommodative yield curve.



Source: RenaissanceCapital.com

Venture Firms Looking for Liquidity

Venture Capital-backed companies have returned to the IPO backlog following a conspicuous absence during the 2008-2009 downturn. Though still below pre-recession levels, there are currently 42 VC-backed deals in the US pipeline, compared with only nine a year ago. Not surprisingly, 73% of these potential issuers are in the technology and health care industries, which has contributed to the pipeline's sector shift. Of the 42 VC-backed IPO hopefuls, 71% were founded in or after 2000, 71% generated less than $100 million in sales over the last 12 months and 57% have yet to turn a profit on a trailing 12-month basis. The outperformance of recent VC-backed deals may offer a glimmer of hope to would-be filers: year-to-date, VC deals have posted an average total return of 8% versus 1% for the overall market. However, the increased filing activity may also signal a willingness on the part of VC backers to accept lower valuations in exchange for liquidity.

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Notable venture capital-backed IPOs in the pipeline include:

- **Zipcar** – Operating under its "wheels when you want them" motto, Zipcar runs a car sharing network used in 14 major cities and on more than 150 college campuses in the US, Canada and the UK. Zipcar has accumulated a 400,000-strong user base of "Zipsters" who can access vehicles by the hour or by the day by making reservations over the phone, on the Internet or through their mobile device. Major VC backers include Revolution Living, an investment company launched by AOL founder Steve Case in 2005, Benchmark Capital Partners and Greylock Partners.

- **Demand Media** – The online media company Demand Media was founded in 2006 by private equity investor Shawn Cole and former MySpace Chairman Richard Rosenblatt. The "content farm" uses algorithms to generate consumer-targeted online content that is posted on a variety of external and company-owned websites including eHow.com and LIVESTRONG.com. Demand Media, whose top backers include Oak Investment Partners, Spectrum Equity and W Capital Partners, is also one of the world's largest registrars and generates revenue by providing domain name registration services.

- **NetSpend** – NetSpend offers general-purpose reloadable prepaid debit cards to "underbanked" consumers in the US, providing financial alternatives to those who lack traditional bank accounts. The company filed its S-1 only a week before major competitor Green Dot Corporation successfully raised $164 million in its July IPO. Oak Investment Partners is the top shareholder with a 47% stake.

Notable VC-Backed IPOs in the Pipeline

Company	Ticker	Business Description	Industry	Est. Deal Size (mm)	LTM Sales (mm)
NetSpend	NTSP	Offers reloadable prepaid debit cards and related financial services.	Financial	$200	$255
Pacific Biosciences	PACB	Performs DNA sequencing using single molecule real-time technology.	Health Care	$200	$0
Aurora Diagnostics	ARDX	Specialized diagnostics company focusing on the anatomic pathology market.	Health Care	$150	$187
Demand Media	DMMD	Leading global provider of online content and domain name registration services.	Technology	$125	$221
Amyris	AMRS	Genetically modifies yeast strains to operate an industrial synthetic biology platform.	Energy	$100	$65
EverydayHealth	EVDY	Provides consumers, advertisers and partners with a portfolio of health websites.	Technology	$100	$102
Tripwire	TPWR	Provides software solutions to protect physical and virtual IT infrastructure.	Technology	$86	$82
Ellie Mae	ELLI	Provides integrated software that automates mortgage origination.	Technology	$86	$36
Zipcar	ZIP	Operates the leading car sharing services network in North America and the UK.	Transportation	$75	$139
GameFly	GFLY	Largest online video game rental subscription service in the US.	Technology	$50	$83

Source: RenaissanceCapital.com

The Deleveraging Cycle Continues

As discussed at length in our recent PE study, buyout firms currently control 42 of the 170 deals in the pipeline and represent $17 billion (30%) in potential proceeds. Many are familiar names looking to tap the IPO market in order to shore up balance sheets, including GM, Toys “R” US, HCA and AMC Entertainment. However, with companies sitting on record amounts of cash, the PE-backed pipeline may lose a handful of potential issuers to M&A activity, particularly those at the smaller end of the deal spectrum. Recent acquisitions of “dual-track” filers include Univar ($863 million proposed IPO) and Logan's Roadhouse ($200 million).

Ten Largest PE-Backed IPOs in the Pipeline

Company	Ticker	Business Description	Industry	Est. Deal Size (mm)	LTM Sales (mm)
HCA	HCA	Largest private hospital operator in the US.	Health Care	$4,600	$30,165
Nielsen	NLSN	Global leader in television audience measurement with a presence in 100 countries.	Communications	$2,013	$4,990
Toys "R" Us	TOYS	Leading global retailer of toys operating 1,363 stores in 34 countries.	Consumer	$800	$13,699
LPL Investment	LPLA	Provides an integrated technology platform, clearing services and financial products.	Financial	$600	$2,971
Americold	ACRE	REIT with the top global share in the temperature-controlled storage market.	Financial	$600	$761
FleetCor	FLT	Global provider of electronic payment cards to commercial fleets and oil companies.	Financial	$500	$414
Goodman Global	GGL	Provides HVAC products for residential and commercial use.	Capital Goods & Services	$500	$1,922
West Corporation	WSTC	Leading conferencing and call center provider.	Business Services	$500	$2,376
AMC Entertainment	AMC	Owns or operates 380 movie theaters in the US and Canada.	Consumer	$450	$2,423
Ryerson Holding	RYI	The second largest metal distributor in North America.	Materials	$400	$3,066

Source: RenaissanceCapital.com

- **HCA** – Founded in 1968 by Dr. Thomas Frist, Sr. with the opening of a single facility in Nashville, HCA is now the largest private hospital operator in the US with 162 hospitals across 20 states and parts of England. The company went private for the third time in 2006 in a massive $33 billion LBO by a consortium led by Bain, KKR and the private equity arm of Bank of America. The company plans to use the proposed $2.6 billion in primary proceeds to pay down a portion of its $26 billion in outstanding debt.

- **Nielsen** – LBO'd in 2006, Nielsen is a leading consumer behavior measurement company that derives most of its revenue from its "What Consumers Watch" and "What Consumers Buy" segments. Its Watch segment provides ratings services for television programs while its Buy segment measures and analyzes retail information such as market share, consumer segmentation and marketing cycles. The company, which was founded in 1923, is now owned by PE giants Blackstone, Carlyle, KKR and Thomas H. Lee and plans to use IPO proceeds to partially pay down nearly $9 billion in outstanding debt.

- **Booz Allen Hamilton** – Booz Allen Hamilton is a management and technology consulting that began serving the U.S. government in 1940 in preparation for World War II. With roughly 23,800 employees, the consulting firm now serves all levels of the government from executive offices to independent agencies. Booz Allen is controlled by Carlyle, which bought an 80% stake in the company in 2008, and plans to use proceeds to partially pay down $1.5 billion in outstanding debt.

Global Activity Gearing Up

Although harder to measure due to lower filing visibility, there appears to be ample dry powder in the global IPO pipeline, with large offerings teed up almost every region across the globe:

- **Europe** – Generating the most buzz in Europe is Italian energy company Enel SpA's planned spin-off of its renewable energy assets, Enel Green Power, in a $3 billion IPO this October. The green energy company has more than 5.7 GW of installed capacity in wind, solar, hydroelectric and biomass energy and operates over 600 green power plants across the globe. Also coming in 2010 is an offering by the Polish government of the country's main bourse, the Warsaw Stock Exchange. Although deal specifics have yet to be released, the IPO is scheduled to move ahead in November. Other large deals in the European pipeline include PE-backed Danish jewelry maker Pandora ($1.6 billion) and Norwegian property and casualty insurer Gjensidige Forsikr ($1.3 billion).

- **Asia Pacific –** The Asian IPO market will likely remain the most active, with several massive deals slated for the remainder of 2010. These include India's largest coal company, Coal India ($3 billion, October), the Government of Singapore Investment Corporation's real estate arm Global Logistic Properties ($2.5 billion, October), Malaysian energy company Petronas Chemicals Group Bhd ($2 billion, September), and what may be a $15 billion Hong Kong deal for AIG's Asian life insurance unit, AIA, sometime in the fourth quarter.

- **Latin America –** Brazil continues to drive IPO issuance in Latin America and has a significant backlog that will likely help it continue its lead. Most noteworthy is Spanish oil company Repsol SA's planned spin-off its Brazilian assets before the end of the year. Repsol Brasil SA may raise as much as $4 billion in proceeds to fund oil exploration in Brazil. Also of note is the upcoming IPO by Columbian bank Banco Davivienda, the first in Colombia since 2007.

- **Middle East & Africa** – A dormant Middle East market could potentially be awakened by the planned IPO of telecom services provider Nawras in Oman. The company, a spin-off of Qatar Telecom, is looking to generate more than $500 million in proceeds in late October. However, investors ability to participate in Middle Eastern deals is limited.

Conclusion

With moderate deal flow and mixed performance year-to-date, the IPO market remains at a crossroads. On the one hand, there are an increasing number of venture-backed growth companies in the pipeline, representing familiar sectors such as technology and healthcare. On the other, we have the continued flow of private equity-backed deals looking to delever, as well as the closely watched privatization of General Motors. Although high-profile PE-backed deals will continue to face valuation pressure from investors, we expect most to move forward, which could drive full-year global issuance above $200 billion for the first time since 2007. As we head into the fall, investors will be watching the IPO market's path as a barometer of risk appetite and the sustainability of the still-fragile economic recovery.

About Renaissance Capital

Renaissance Capital, founded in 1991 and headquartered in Greenwich, CT, is the global leader in providing fundamental and quantitative institutional IPO research. The Firm maintains the FTSE Renaissance IPO Composite Index (symbol: IPOS), the definitive benchmark of IPO activity and performance. Renaissance Capital also provides IPO-focused investment management services as the advisor to the IPO Plus Fund (symbol: IPOSX), the first mutual fund to focus solely on investing in IPOs, and through separately managed institutional accounts. For more information visit our website www.RenaissanceCapital.com or call 203-622-2978.

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