

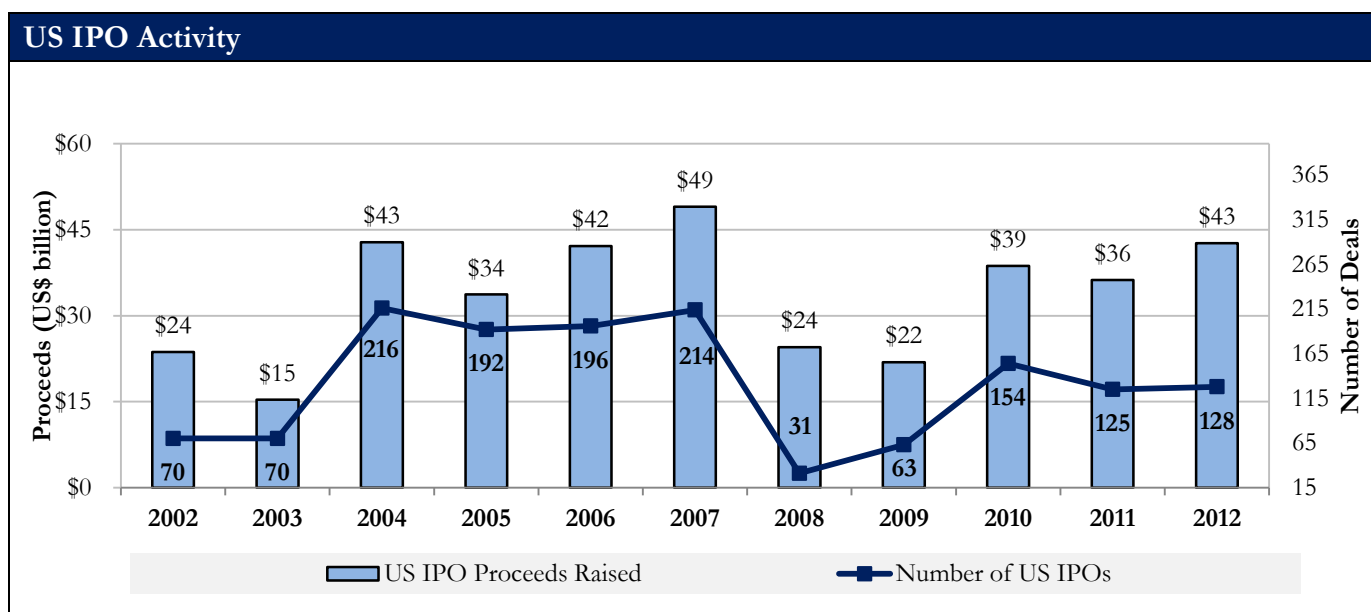
December 17, 2012

In an Up-and-Down Year, US IPO Market Struggles to Gain Momentum

After the fastest start since 2000, with the most anticipated deal in years on the horizon, the US IPO market entered May in prime condition. However, the European debt crisis intervened yet again, and a market decline turned into a month-long drought for IPOs following Facebook's botched offering. Deal activity returned sporadically in the second half, but uncertainty surrounding the fiscal cliff resulted in a disappointing end to the year, with the second-slowest November and December since the tech bubble. Still, the overall results showed an improvement over last year. With \$43 billion raised, total proceeds were at the highest level since 2007, and the 17% average total return was above market indices. Consumer companies, such as organic food maker Annie's and discount youth retailer Five Below, and enterprise software providers, most notably Guidewire and Workday, produced some of the best-performing deals. After starting the year at a record high, the pipeline was cut in half largely due to the passage of the JOBS Act, which allowed smaller companies to file confidentially and created a large shadow backlog.

Key Takeaways:

- IPO proceeds rise, helped by mammoth \$16 billion Facebook deal
- 14% average first-day pop is best in a decade
- Search for growth creates diverse group of top performers
- Private equity deal flow rises but lack of large deals causes proceeds to fall 50%
- Facebook marks biggest venture capital-backed deal in IPO history
- Investors favor LPs and LLCs in search of yield
- Confidential filings under JOBS Act reduce pipeline visibility



Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs.

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US IPO activity improves marginally in an up-and-down year

In an up-and-down year that started off strong but ended with the second-slowest November and December since the bubble, the US IPO market was modestly more active in 2012, with 128 deals, up 2% from last year. Total proceeds were up 17% but fell 27% excluding Facebook. IPO activity consisted mainly of smaller deals, as the median deal size dropped 23%. Perhaps indicating a paradigm shift, despite three years of recovery, US IPO activity still has not returned to the historical norm of 150 to 200 annual deals, as the market continues to react strongly to external shocks. Excluding a handful of record IPOs – GM in 2010, three mega private equity-backed IPOs in 2011 and Facebook in 2012 – annual proceeds from US IPOs would have trended below \$30 billion.

Key US IPO Statistics

	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	192	196	214	31	63	154	125	128
Proceeds Raised (US\$)	\$33.7b	\$42.2b	\$49.0b	\$24.5b	\$21.9b	\$38.7b	\$36.3b	\$42.6b
Median Deal Size (US\$)	\$108.5m	\$116.5m	\$120.0m	\$156.8m	\$154.6m	\$107.9m	\$160.2m	\$124.0m
PE-Backed Deals	63	56	48	5	22	38	35	44
PE-Backed Proceeds (US\$)	\$15.6b	\$15.4b	\$11.8b	\$1.4b	\$6.5b	\$9.6b	\$20.4b	\$10.2b
VC-Backed Deals	56	65	86	7	12	61	51	46
VC-Backed Proceeds (US\$)	\$5.1b	\$6.4b	\$9.7b	\$0.6b	\$1.3b	\$6.0b	\$7.9b	\$20.7b

Performance

Average US IPO Return	19.0%	26.0%	13.3%	-33.0%	16.4%	25.1%	-9.8%	16.5%
FTSE Renaissance US IPO Index	23.2%	17.5%	15.1%	-50.2%	54.9%	20.3%	-21.4%	7.7%
S&P 500	3.0%	13.6%	3.5%	-40.3%	23.5%	12.8%	0.0%	12.4%
Russell 3000	3.3%	17.0%	-2.7%	-39.8%	25.2%	14.8%	-0.9%	12.7%

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 12/14/12.

Technology continues to dominate activity while financial deal flow jumps

Technology was once again the most active sector, accounting for 30% of deals and 48% of proceeds. Deal flow from the financial sector jumped this year, representing 16% of deals and 19% of proceeds, as new financial institutions sought to capitalize on dislocations caused by the financial crisis. The energy sector also made a strong showing, accounting for 20% of deals and 17% of proceeds, as investors snapped up yield-offering LPs and LLCs.

Proceeds by Sector (US\$ Billion)															
Sector	2008			2009			2010			2011			2012		
	#	\$	% of \$	#	\$	% of \$	#	\$	% of \$	#	\$	% of \$	#	\$	% of \$
Technology	4	\$0.4	1%	16	\$3.5	16%	42	\$5.9	16%	44	\$9.7	27%	38	\$20.4	48%
Financial	3	\$18.3	75%	11	\$7.3	33%	29	\$5.5	33%	13	\$3.8	10%	21	\$8.3	19%
Energy	7	\$1.7	7%	5	\$1.9	9%	18	\$3.8	9%	28	\$8.8	24%	25	\$7.3	17%
Consumer	1	\$0.2	1%	8	\$3.4	15%	18	\$2.1	5%	12	\$4.0	11%	15	\$2.3	5%
Materials	2	\$1.1	5%	4	\$0.3	1%	7	\$1.1	3%	3	\$0.8	2%	7	\$1.7	4%
Capital Goods	3	\$0.5	2%	2	\$0.1	1%	7	\$16.5	43%	2	\$0.6	2%	5	\$1.4	3%
Health Care	4	\$0.2	1%	9	\$2.0	9%	17	\$1.3	3%	15	\$5.2	14%	12	\$0.8	2%
Transportation	2	\$0.3	1%	1	\$0.3	2%	6	\$1.6	4%	5	\$1.6	4%	2	\$0.4	1%
Business Services	3	\$0.4	2%	7	\$3.1	14%	7	\$0.8	2%	1	\$0.2	*	3	\$0.2	*
Utilities	2	\$1.4	6%	0	--	--	0	--	--	1	\$0.1	*	0	--	--
Communications	0	--	--	0	--	--	3	\$0.2	1%	1	\$1.6	5%	0	--	--

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. *Less than 1%.

Facebook makes up for fewer billion-dollar deals

Facebook's much-anticipated offering headlined IPO activity in 2012. It raised \$16 billion in proceeds (38% of total), making it the third-largest US IPO of all time, behind Visa and ENEL, and the seventh-largest global IPO on record. Facebook's mammoth deal more than made up for the drop in billion-dollar IPOs this year (four compared to six in 2011). Other major 2012 offerings include the dual listing of Santander's Mexican division and Apollo-backed Realogy, the largest real estate brokerage in the US.

Largest US IPOs						
Company	Ticker	Offer Date	Deal Size (\$mm)	Sector	Return from IPO†	
Facebook	FB	17-May	\$16,007	Technology	-29%	
Santander Mexico	BSMX	25-Sep	\$2,864	Financial	28%	
Linn Co	LNCO	11-Oct	\$1,104	Energy	0%	
Realogy	RLGY	10-Oct	\$1,080	Financial	43%	
The Carlyle Group	CG	2-May	\$671	Financial	12%	
Workday	WDAY	11-Oct	\$637	Technology	80%	
Allison Transmission	ALSN	14-Mar	\$600	Capital Goods	-15%	
PetroLogistics LP	PDH	3-May	\$595	Materials	-22%	
SandRidge Mississippian Trust II	SDR	17-Apr	\$546	Energy	-21%	
PBF Energy	PBF	12-Dec	\$520	Energy	4%	

Source: Renaissance Capital. †Based on offer price to 12/14/12 closing price.

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IPO returns bounce back with best average first-day pop in a decade

40% of IPOs priced below the range this year, up from 34% last year and near 2010's 42% record, as wary investors exerted pressure on pricing following pockets of slow activity. These pricing concessions resulted in a significant improvement in first-day performance. Only 18% of deals closed below their offer price on the first day compared to 33% in 2011. The average first-day return this year was 14%, the best since 2001, helping the average total return bounce back to 17% from a dismal -10% last year.

Return Statistics

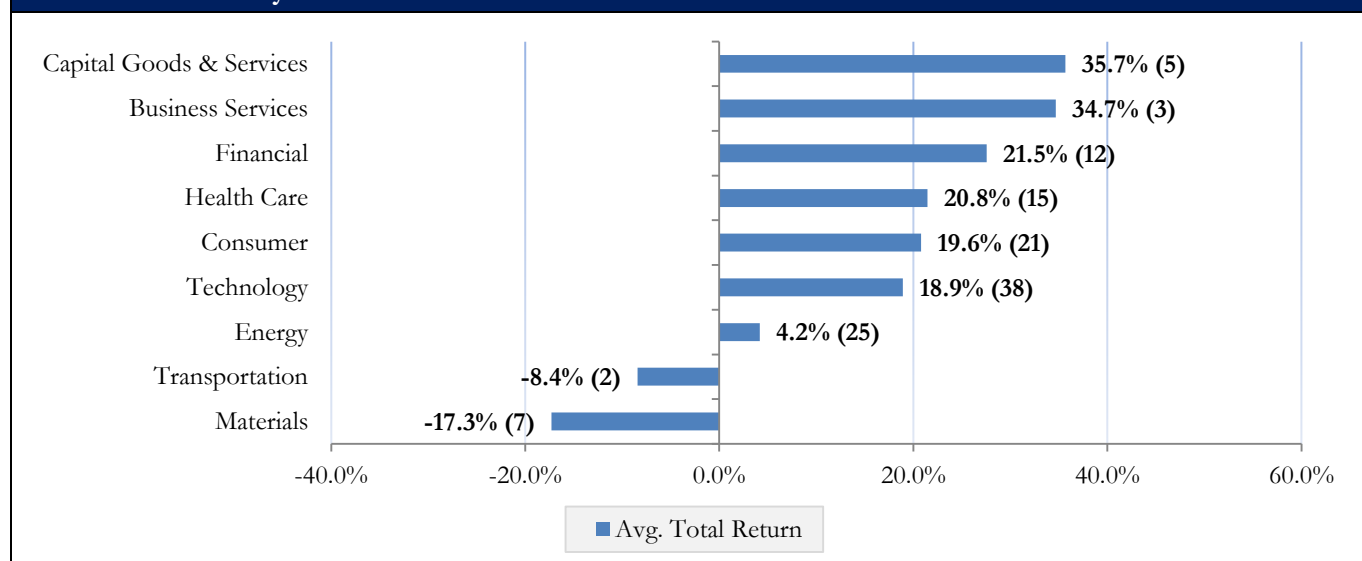
	2005	2006	2007	2008	2009	2010	2011	2012
Avg. Total Return	19.0%	26.0%	13.3%	-33.0%	16.4%	25.1%	-9.8%	16.5%
Avg. First-Day Return	11.2%	11.5%	13.4%	3.3%	7.3%	9.6%	10.5%	14.1%
Avg. Aftermarket Return	7.2%	12.7%	-0.4%	-35.9%	7.7%	14.5%	-17.5%	2.9%
% Deals with Negative First-Day Return	21.9%	20.9%	24.8%	58.1%	31.7%	31.8%	32.8%	18.8%
% Deals Priced Below the Range	31.8%	33.7%	28.0%	38.7%	27.0%	41.6%	34.4%	39.8%

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 12/14/12.

Strong financial and consumer returns boost US IPO performance

Of the most active sectors, financial stocks led the year with a 22% return, while the consumer sector averaged a 20% gain as investors gravitated toward familiar brand names, such as Annie's, Five Below and Restoration Hardware. Technology stocks also performed well, with a 19% average return, led by on-demand software companies with attractive revenue visibility and upfront cash flows. Driven by a handful of strong-performing biotechs, the health care sector posted a 21% return, while the energy sector returned a modest 4%, dragged down by underperforming E&Ps hurt by falling oil and gas prices.

US IPO Returns by Sector



Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 12/14/12.

Ongoing search for growth creates diverse group of top performers

The best-performing deals were a diverse group in 2012 as investors searched for increasingly scarce growth stories across all sectors. On-demand software firm Guidewire won over investors with its blue-chip customer base, long-term contracts and scalable model. Biotech Intercept Pharmaceuticals has a product candidate in Phase 3 for the treatment of a rare liver autoimmune disease and is expecting data in 2014. Only one of last year's top performers, security software provider Imperva (+93%), would have been able to crack this year's list, as 2011's best-performing deals were hit by a market sell-off in the second half of the year.

Best-Performing US IPOs						
Company	Ticker	Offer Date	Deal Size (\$mm)	Sector	Return from IPO†	
Guidewire Software	GWRE	24-Jan	\$115	Technology	136%	
Intercept Pharmaceuticals	ICPT	10-Oct	\$75	Health Care	131%	
HomeStreet	HMST	10-Feb	\$80	Financial	124%	
Vipshop Holdings Limited	VIPS	22-Mar	\$72	Technology	124%	
Proto Labs	PRLB	23-Feb	\$69	Capital Goods & Services	122%	
Nationstar Mortgage Holdings	NSM	7-Mar	\$233	Financial	112%	
WageWorks	WAGE	9-May	\$59	Business Services	108%	
Five Below	FIVE	18-Jul	\$163	Consumer	103%	
Chuy's	CHUY	23-Jul	\$76	Consumer	84%	
FX Alliance	FX	8-Feb	\$62	Financial	83%	

Source: Renaissance Capital. †Based on offer price to 12/14/12 closing price.

Alternative energy skepticism and earnings underperformance hurt worst performers

After energy companies accounted for three of the top performers in 2011, six energy plays were among the worst IPOs in 2012. Ceres, which sells seeds utilized in the production of renewable bioenergy feedstocks, Enphase Energy, a provider of microinverter solutions for the solar industry, and Renewable Energy Group, the leading domestic producer of biodiesel, all underperformed, highlighting investor skepticism of the alternative energy space. Several of the other companies on the worst-performing list can blame lower-than-expected earnings for their weak returns, most notably Envivio, which sells a video processing software platform to telecom providers and dramatically lowered its growth outlook following its April IPO. Facebook's disappointing debut made headlines, but it avoided a place on the worst-performing list after a November surge.

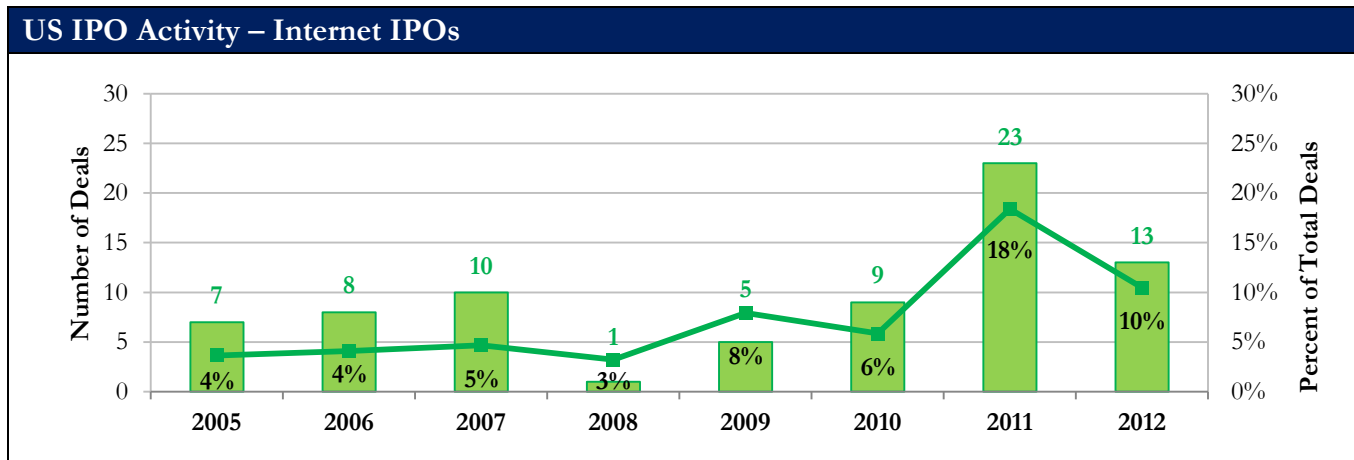
Worst-Performing US IPOs						
Company	Ticker	Offer Date	Deal Size (\$mm)	Sector	Return from IPO†	
Envivio	ENVI	24-Apr	\$70	Technology	-81%	
CafePress	PRSS	28-Mar	\$86	Technology	-72%	
Ceres	CERE	21-Feb	\$65	Materials	-70%	
Enphase Energy	ENPH	29-Mar	\$54	Energy	-46%	
Roundy's	RNDY	7-Feb	\$163	Consumer	-46%	
Midstates Petroleum Company	MPO	19-Apr	\$312	Energy	-43%	
Audience	ADNC	9-May	\$90	Technology	-42%	
Edgen Group	EDG	26-Apr	\$165	Energy	-39%	
Renewable Energy Group	REGI	18-Jan	\$72	Energy	-38%	
Matador Resources	MTDR	1-Feb	\$160	Energy	-32%	

Source: Renaissance Capital. †Based on offer price to 12/14/12 closing price.

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Facebook and poor performance put hiatus on Internet IPOs

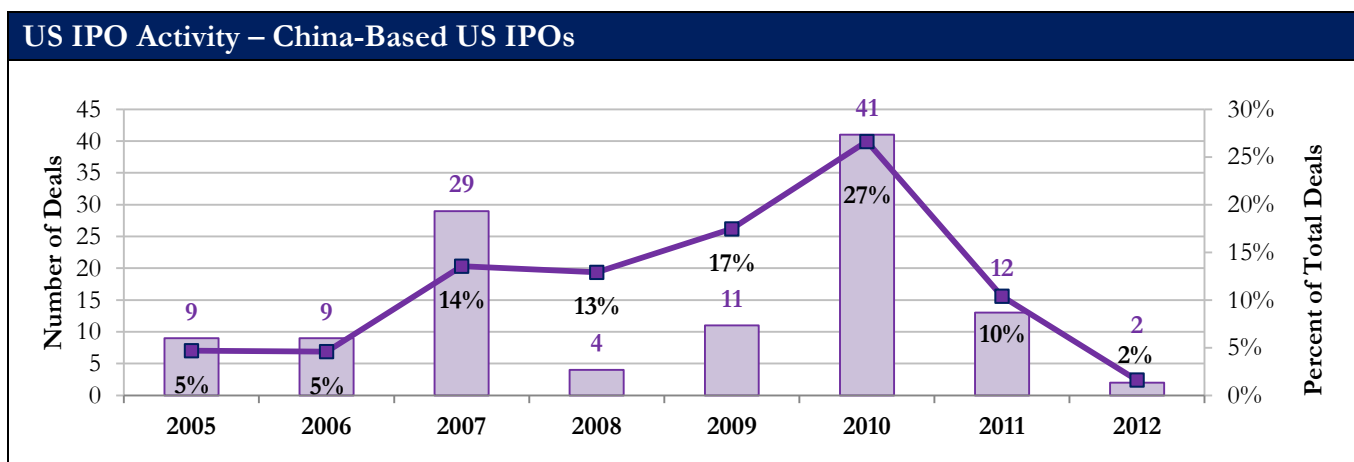
A total of 13 Internet IPOs raised an average of \$90 million (excluding Facebook), representing 43% fewer deals than in 2011. The year started out strong with seven deals pricing in the 1Q12 compared to four in the 1Q11. However, Groupon and Zynga, which went public in late 2011, suffered massive declines in 2012 (both down 75%), which, combined with Facebook’s mismanaged offering in May, deterred potential Internet companies from moving forward with their IPOs. There were only five post-Facebook Internet IPOs, four of which were completed after August.



Source: Renaissance Capital.

Chinese IPOs curtailed for second straight year

Chinese IPOs reached their lowest levels since 2003, with only two deals completed, representing an 83% decline from 2011 and a 95% decline from 2010. Investors continued to be wary due to the breakout of fraud in 2011 and, more recently, SEC investigations of Chinese auditors. Also contributing to the abatement was an economic slowdown in China, as evidenced by the lack of deals listing on the Hong Kong and Shanghai exchanges. Both US listings this year, however, had strong showings for the year as flash sales website Vipshop (+124%) and social platform YY (+30%), potentially giving other Chinese companies confidence to move forward with US IPOs in 2013.

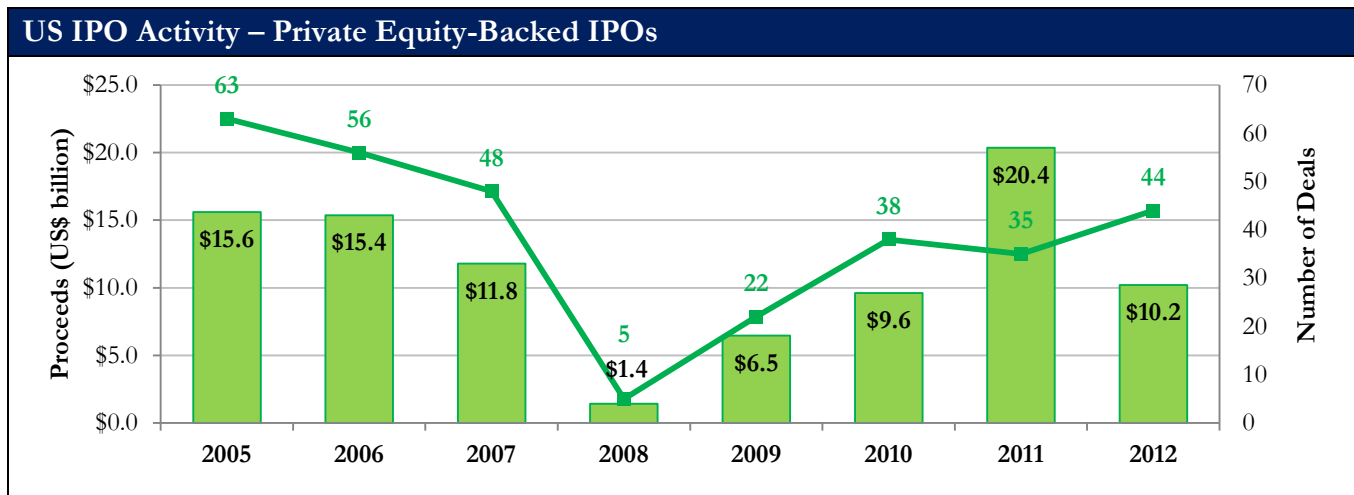


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Private equity deal flow up, but lack of large deals causes proceeds to fall 50%

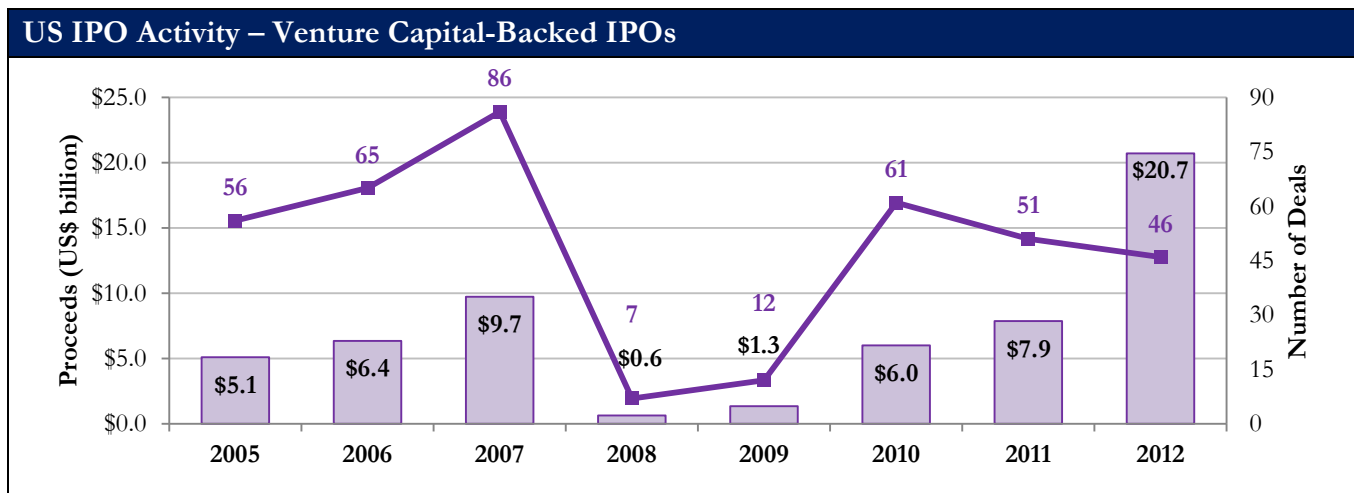
Overall issuance for private equity-backed IPOs increased 26% as 44 deals were completed. However, the average private equity-backed deal size shrunk 62% from \$583 million in 2011 to \$224 million in 2012. Just four deals managed to raise more than \$500 million compared to 11 in 2011 and only one LBO, Realogy, raised more than \$1 billion, compared to three in 2011 (Nielsen, Kinder Morgan and HCA). These three were the largest LBO IPOs in history, with an average deal size of \$2.8 billion. Overall, the majority of private equity-backed IPOs in 2012 were characterized by late-stage investments in growth companies (e.g. Five Below, Annie's, Chuy's), as opposed to leveraged buy-outs of mature businesses as seen in previous years.



Source: Renaissance Capital.

Facebook IPO highlights down year for venture capital

Facebook was the biggest VC-backed deal in IPO history and drove a 163% increase in VC proceeds year-over-year. However, excluding Facebook, VC-backed IPO activity was down 16% in terms of deal flow and 43% in terms of proceeds. Excluding Facebook, the average deal size was \$104 million, down 32% from 2011. Internet IPOs were the biggest detractors for VC-backed IPOs as the number of deals fell 33% year-over-year and represented 26% of deal activity compared to 35% last year.



Source: Renaissance Capital.

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Investors favor LPs and LLCs in search of yield

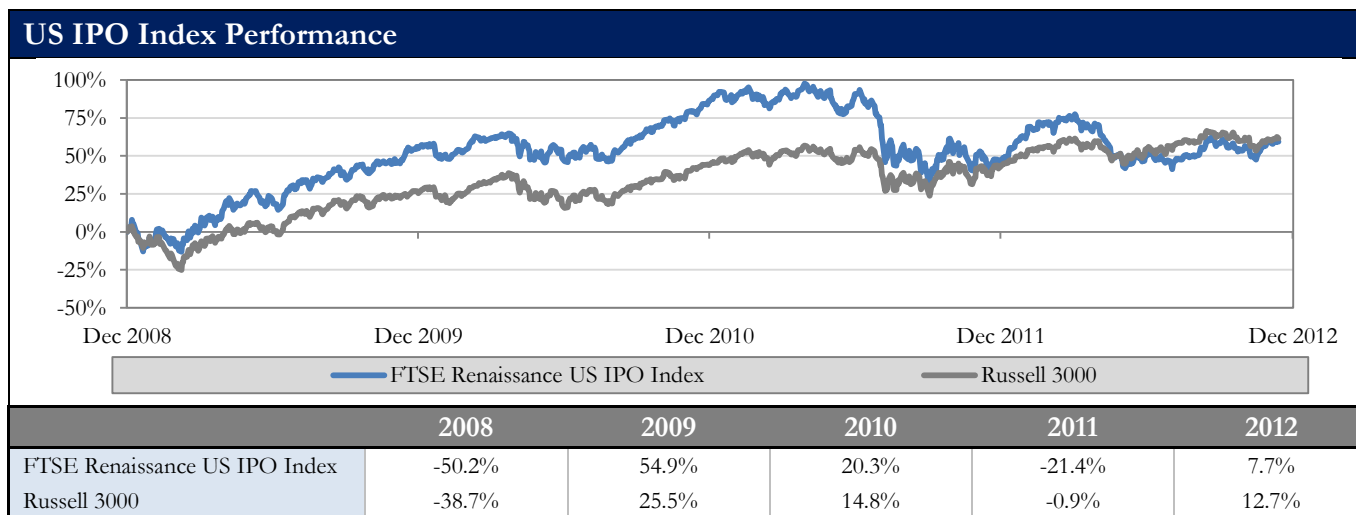
LP/LLC deal activity reached its highest point in the last nine years, benefitting from yield-hungry investors who were forced by Fed policies to seek dividend-paying stocks, in many cases yielding over 6%, rather than bonds. While deal flow was up only slightly, proceeds increased 81% due to a 68% rise in average deal size to \$315 million compared to \$187 million in 2011. Notably, all but one 2012 LP IPO came after June 1 and the last three deals added to the 2012 calendar were yield plays.



Source: Renaissance Capital.

US IPO Index dragged down by Facebook, lags benchmark in 2012

The FTSE Renaissance US IPO Index (IPOS), a measure of post-IPO performance, rebounded from a weak 2011, but underperformed domestic equity benchmarks with an 8% return in 2012 (Russell 3000: 13%). Positive returns were primarily driven by industrial and consumer stocks, which contributed a combined 7% to overall index returns. Strong performers include LinkedIn (+83%), Delphi Automotive (+59%), Michael Kors Holdings (+83%) and General Motors (+21%). Facebook was, by far, the index's largest detractor as the social network's post-IPO decline subtracted 1% from index returns.



Source: Renaissance Capital. Note: The FTSE Renaissance Global IPO Index Series represents a rolling two-year population of newly public companies included after the first day of trading and weighted by float adjusted market cap. Returns as of 12/14/12.

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JOBS Act and proliferation of confidential filers stunt pipeline growth

The JOBS Act went into effect on April 5, allowing smaller companies to file confidentially and thus reducing the visibility into IPO filing activity. Only 132 new filers entered the IPO pipeline in 2012, down materially from 257 in 2011 and 253 in 2010. The current pipeline has 114 companies seeking to raise a total of \$34 billion, down from 146 companies and \$45 billion at the end of the third quarter. Of the 114 companies in the pipeline, 42 are considered to be active, having filed an amended document within the past 90 days. The shadow pipeline of companies that have filed confidentially with the SEC could range anywhere from 60 to 100 companies. Among the recent actual IPO filers, notable companies include the American unit of retirement, investment and insurance company ING, Bright Horizons Family Solutions, which offers work site child care and early education centers, and Zoetis, Pfizer's animal health unit, which is expected to launch in early 2013 and could raise as much as \$4 billion.

Notable Upcoming IPOs					
Company	Business	Sales*	Deal Size	Deal Type	Sector
Zoetis	Pfizer spinoff of its animal health medicines and vaccines unit.	\$4,297	\$4,000**	Spin-off	Health Care
Intelsat	World's largest provider of satellite services to businesses.	\$3,444	\$1,750	PE	Technology
ING U.S.	U.S. unit of retirement, investment and insurance group ING.	\$9,330	\$1,000**	Spin-off	Financial
AutoTrader Group	Operates the largest digital automotive marketplace.	\$1,098	\$300	Spin-off	Technology
Norwegian Cruise Line	Leading global cruise operator.	\$2,262	\$250	PE	Travel & Leisure
Taylor Morrison Home	One of America's top ten homebuilders.	\$1,306	\$250	PE	Capital Goods
Bright Horizons Family	Leading provider of work site child care and education centers.	\$1,046	\$220	PE	Business Services
Fairway	Operates 11 high-end grocery stores in the greater NYC area.	\$587	\$150	PE	Consumer
Gogo	Provides in-flight Internet connectivity.	\$199	\$100	VC	Technology
GFI Software	Provides collaboration and IT management software to SMBs.	\$143	\$100	VC	Technology

Source: Renaissance Capital. All \$ are in millions. *Based on LTM results. **Estimate.

Enterprise software company AppSense, traffic data provider Inrix and sandwich shop chain Potbelly Sandwich are among a list of companies that have tapped banks in preparation of an IPO. MGM Holdings and Violin Memory have already submitted confidential filings. SpaceX could be Elon Musk's third IPO attempt in four years, after Tesla Motors (June 2010) and SolarCity (December 2012). Overall, our proprietary Private Company Backlog holds nearly 180 companies, with strong representation from e-commerce and enterprise software firms.

Notable Private Companies Expected to Seek IPOs					
Company	Business	Est. Sales	Est. Funding	Sector	
AppSense	Provides user virtualization software to enterprises.	\$100	\$70	Technology	
Arista Networks	Sells 10 Gigabit Ethernet switches for cloud-computing data centers.	\$45	\$100	Technology	
Gilt Groupe	E-commerce site that offers flash sales on luxury brand items.	\$120	\$255	Technology	
MGM Holdings	Parent company of Hollywood movie studio Metro-Goldwyn-Mayer.	\$800	n/a	Media	
Neiman Marcus	Leading luxury department retailer that operates 79 stores in the US.	\$4,260	n/a	Retail	
Palantir Technologies	Data analytics platform focusing on the government and financial sectors.	\$130	\$301	Technology	
Potbelly Sandwich	Operates over 240 "antique" sandwich shops in the US.	\$250	n/a	Travel & Leisure	
SpaceX	Elon Musk-led space exploration company.	\$500	\$200	Energy	
Tableau Software	Provides interactive data virtualization software.	\$100	\$15	Technology	
Violin Memory	Manufactures enterprise flash memory arrays.	\$100	\$156	Technology	

Source: Renaissance Capital. All \$ are in millions.

Is IPO volatility here to stay?

Now three years into the recovery, the IPO market remains well below the levels seen in the last cycle. The average deal count of 136 in the last three years is well below the 205 average of 2004 to 2007. Over the last decade, the IPO market has become increasingly captive to the underlying stability and trends of the overall equity markets. When major exogenous events, such as the European debt crisis and the fiscal cliff, roil the securities markets, IPO activity slows or shuts down altogether (e.g. August-October 2011 and May-June 2012). US IPO activity has also been below the levels we would expect in a normal economic rebound because of the tepid nature of the current recovery (unusually slow GDP growth and ongoing high unemployment) despite unprecedentedly expansionary monetary policy. The JOBS Act, which was touted as a way of opening the IPO market to small growth companies, has had no noticeable effects other than reducing the minimum time from filing to pricing. Without more structural changes, we are less optimistic that the JOBS Act in and of itself will solve some of the issues facing the US IPO market. The good news is that the IPO backlog, including the large shadow backlog, continues to grow, and IPOs by smaller companies actually rose in 2012. To see a good year in 2013, the IPO market will need not only a constructive resolution to the fiscal cliff, but also a steadier recovery in the broader equity markets.