

## Private Equity Partners | market update

## Second Quarter 2010

## IPOs – Reason for Optimism?

The IPO market in 2010 is off to a pretty good start. Year-to-date, there have been 53 IPOs, raising a total of \$8.4 billion. This compares to 11 IPOs for \$2.2 billion for the same period last year.

Early in the year, you could sense the optimism within the private equity community that the IPO window would reopen in 2010. While January and February were a little slow, March, April and May each produced a minimum of 11 IPOs and \$1.3 billion raised. So far, June is slightly behind that pace (seven IPOs pricing through June 25) due to the market turmoil caused by the European debt crisis and perhaps recent post-IPO price performance. The class of 2010 IPOs is down an average of 3.5 percent versus a virtually flat year-to-date return for the S&P 500. Twenty-one of the 53 IPOs so far in 2010 are down more than 10 percent from the offer price and only 22 have traded up (as of June 25).

Regardless, the IPO backlog of companies in registration continues to grow, a sign that bankers and sponsors expect a robust IPO market in the coming months. There are currently 127 IPOs in registration, up from a low of 33 in August 2009. Most of them look viable. Less than 30 percent of the backlog is growing stale (more than four months old).

We have learned the following from recent discussions with institutional buyers of IPOs:

- There is a strong demand for growth stories, which should bode well for VCs.
- There appears to be less interest for LBO-backed IPOs. While institutional investors are still willing to participate in LBO-backed IPOs, they have become very price-sensitive. During the 2006-2007 boom of LBO-backed IPOs, the buyers were more apt to accept the valuation being pitched by the bankers. Today, investors are crunching the numbers themselves and telling the bankers where the deal needs to price. This is evidenced by over 50 percent of IPOs in 2010 pricing below their filing range, the highest percentage in years.

	above	in range	below
2010	11%	38%	51%
2009	22%	45%	33%
2008	11%	44%	44%
2007	29%	43%	28%
2006	22%	44%	34%
2005	25%	44%	31%
2004	21%	45%	35%
2003	30%	58%	12%

Source: Dealogic.

With few exceptions, the bar remains high for an IPO. Growth, profitability and predictability are the ingredients investors require. Median revenue for 2010 IPOs remains over \$100 million while the median EBITDA is \$24 million.

	2010	2009	2008	2007	2006
IPO Count <sup>1</sup>	53	49	27	202	192
Average Revenue	\$352M	\$931M	\$448M	\$270M	\$543M
Average EBITDA	\$68M	\$144M	\$143M	\$61M	\$75M
Median Revenue	\$124M	\$224M	\$151M	\$91M	\$109M
Median EBITDA	\$24M	\$47M	\$49M	\$16M	\$20M

<sup>1</sup>Offerings on U.S. exchanges only, excludes transactions <\$20M, SPACs, REITs and closed-end investment companies.  
Sources: Dealogic, CapIQ. Market data as of 6/25/10.

We anticipate the IPO market to remain choppy as investors continue to digest news of the global economy and the price performance of recent IPOs. An uptick in either category may add the necessary confidence to both issuers and investors to create a more steady flow of IPOs in the second half of the year.

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## Recent IPO Activity for our Portfolio Companies

Our fund portfolios have experienced an increase in IPO activity so far in 2010, with nine companies successfully entering the public markets and an additional 10 companies in registration. Here are just a few of the companies that are now public.



**HigherOne:** Higher One provides electronic refund management and other financial services to universities and provides online bank accounts and associated debit cards to students at participating universities.

[www.higherone.com](http://www.higherone.com)



**Ironwood Pharmaceuticals:** Ironwood is an entrepreneurial pharmaceutical company dedicated to the art and science of great drugmaking. [www.ironwoodpharma.com](http://www.ironwoodpharma.com)



**ReachLocal:** ReachLocal is a full-service online marketing and advertising services agency dedicated to serving the local business owner as well as the sales agents currently serving those local businesses.

[www.reachlocal.com](http://www.reachlocal.com)

Additionally, here are a couple of the companies currently in registration; our investors may recognize their names from our investment reports.



**Green Dot:** Green Dot is a provider of reloadable debit cards.

[www.greendotcorp.com](http://www.greendotcorp.com)



**MolyCorp Minerals:** MolyCorp is the owner of the largest non-Chinese rare earth deposit in the world, and a leader in rare earth technology. They supply a variety of rare earth materials that are critical to emerging green energy technologies, high-tech applications and numerous defense systems.

[www.molycorp.com](http://www.molycorp.com)

## Piper Jaffray Private Capital Authors a Special Report on the CleanTech State of the Market



Clean Technology is transforming major global industries. Global demand for energy is increasing and traditional resources are becoming scarce. To fill this gap, CleanTech innovation is occurring rapidly and renewable solutions are becoming cost-competitive with traditional solutions. Our CleanTech State of the Market report highlights the catalysts in place for CleanTech investments to generate outsized returns. We invite you to download a copy [here](#), and let us know your thoughts. We're eager to hear from you.

## Upcoming Events

We are regular speakers and attendees at key industry conferences. We hope to see you at these upcoming conferences:

- **July 21-23:** Public Funds Summit East in Newport, Rhode Island [http://www.opalgroup.net/conferencehtml/current/public\\_funds\\_summit\\_east/public\\_funds\\_summit\\_east.php](http://www.opalgroup.net/conferencehtml/current/public_funds_summit_east/public_funds_summit_east.php)
- **September 28-29:** Mike Pohlen will be speaking at the Private Equity Analyst Conference in New York City <http://peaconference.dowjones.com/>
- **October 19-20:** Family Office Exchange Fall Forum in Chicago [www.foxexchange.com](http://www.foxexchange.com)
- **November 14-17:** International Foundation of Benefits - 56th U.S. Annual Employee Benefits Conference in Honolulu <http://www.ifebp.org/Education/UsAnnual/default.htm>
- **November 18-21:** SRI in the Rockies in San Antonio [www.sriintherockies.com](http://www.sriintherockies.com)

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