WHY HAVE WE SEEN A SLOWDOWN IN IPOs AND WHAT COULD DRIVE AN INCREASE?

May 10, 2017
The Number of Public Companies Has Declined by Close to 50%

Number of Public Companies

Note: Includes SEC registered companies on a U.S. public exchange.
IPO Trends

The number of IPOs has declined materially from their pace prior to 2000.

IPOs Less Than $100 Million Market Cap as a % of Total IPOs

Small cap has become a smaller percentage of total IPOs.

Source: Dealogic.
Note: Includes SEC registered IPOs. Excludes BCCs, SPACs and closed end funds.
Factors to Consider

• Rise of private equity

• Regulatory environment
  - The JOBS Act has been a homerun for emerging growth company IPOs
  - Stifling regulatory environment
  - Expense burden of being public

• Costs / requirements of being a public company
  - Time to liquidity
  - Market risks
What is Needed for a Favorable IPO Market?

• A healthy IPO market requires a confluence of:
  
  − Favorable Market Trends and Valuation Levels
  
  − Favorable Regulatory Environment
  
  − Post Deal Sponsorship

  • Getting public is half the battle

  • Research support is essential to provide information flow to investors

  • Trading support is essential to provide liquidity to investors, particularly for illiquid small cap companies

  • As of 2012, nearly 29% of exchange listed companies had no meaningful research coverage

  − This is most concentrated in sub $250 million market cap companies, where the lack of coverage is north of 50%
Issues to Consider to Make Public Markets More Attractive

• JOBS Act
  - Major positive for emerging growth companies
  - Limited evidence to support that Regulation A offerings are gaining traction
  - Based on our findings, there have been 171 Regulation A offerings filed\(^{(1)}\)
  - Based on our findings, companies that have raised public capital through a Regulation A offering have not developed a robust trading market for their stocks on U.S. public exchanges

• Sponsorship post deal – Essential to the success of an IPO
  - Role of sell side research continues to be eroded
    - More junior talent
    - Restricted roles on underwritings
    - More short term focus
  - Regulations (current/pending) are damaging the model for the firms that focus on small/mid cap companies
    - Glass-Steagall
    - Decimalization
    - Global settlement
    - Tying
    - Desk commentary
    - MiFID
    - Regulatory burden is impeding information flow

\(^{(1)}\) Source: Morrison i Foerster. Data through December 2016.
Regulation A Company Example

2016

$17 Million

Regulation A Offering

- This Company completed a $17.0 million capital raise through a Regulation A offering.
- The Company’s shares launched and began to trade on a public exchange.
- A search of Regulation A companies discloses this Company as one of the most successful in developing an active trading market for its stock in U.S. public markets.

<table>
<thead>
<tr>
<th>Reg A Company</th>
<th>Comp Group(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ticker</td>
<td>---</td>
</tr>
<tr>
<td>Pricing Date</td>
<td>---</td>
</tr>
<tr>
<td>Offer Price</td>
<td>$12.00</td>
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<tr>
<td>Market Cap ($mm)</td>
<td>270.8</td>
</tr>
<tr>
<td>Offering Method</td>
<td>Regulation A</td>
</tr>
<tr>
<td>% Change Price Offer / Current</td>
<td>(47.9%)</td>
</tr>
<tr>
<td>Research</td>
<td>NA</td>
</tr>
<tr>
<td>ADTV Since Pricing</td>
<td>6,899.7</td>
</tr>
</tbody>
</table>

Price Performance Since Offering

Source: FactSet.
Note: Price performance as of 5/8/17.
(1) Includes the median of 35 U.S. companies that completed an IPO since 2015 with a market cap between $200 million and $350 million.
Key Takeaways

The mission of the SEC is to protect investors, maintain fair, orderly and efficient markets and facilitate capital formation

- Suggested areas of focus:
  - “Protect Investors”
    - Decline of equity research platforms and lack of small cap coverage is not a positive for investors or small/mid cap IPOs
  - “Fair, Orderly & Efficient Markets”
    - Tying is rampant – which, is illegal and anti-competitive
      - Larger lenders continue to gain share at the expense of firms that are dedicated to small and mid cap companies
    - Continued concentration of market share in the allocation of capital will ultimately limit the ability of smaller investors to participate
  - “Capital Formation”
    - JOBS Act has been great
    - Unsure Regulation A will create “successful” public companies
    - Continued efficiency and cost improvements are needed
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