

Equity Capital Markets Update

Q1 2019

ECM Quarterly

**IPO Momentum Builds Despite
Slow Start to 2019**

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IPO Momentum Builds Despite Slow Start to 2019

After a quiet first two months, the IPO market showed signs of life in March as Lyft's March 28 debut set the stage for technology unicorns likely to go public in the second quarter.

In the first quarter of 2019, U.S. equity markets recovered from a fourth-quarter rout to post their largest quarterly gains in nearly a decade. Despite ongoing trade tensions between the United States and China, along with underwhelming economic data globally, stocks were buoyed by the news that the Federal Reserve, which had previously announced two rate hikes for 2019, would pause its rate-increase campaign. This dampened concerns that rising rates would be a headwind to corporate profitability and consumer spending in 2019.

During the quarter, yields on 10-year Treasuries dipped below three-month Treasuries, sparking fears of an upcoming recession. It is important to note that although an inverted yield curve has preceded each of the last nine recessions, not all inversions have led to recessions. Analysts expect first-quarter revenue for S&P 500 companies to increase 4.8% on a year-over-year basis and earnings to decline 3.9% year-over-year. Both of these numbers represent a downshift in expectations from three months earlier; however, first quarter 2018 earnings were inflated by the tax cuts that went into effect at the beginning of the year.

Despite these concerns, all major equity indexes posted robust gains in the first quarter, and the CBOE Volatility Index remained below its long-term average since mid-January. The Dow Jones Industrial Average (11.2%) posted its best quarterly performance since the first quarter of 2013, and the S&P 500 (13.1%) posted its best quarterly performance since the third quarter of 2009. Meanwhile, the Nasdaq (16.5%) posted its biggest quarterly gain in seven years as profits continue to increase among technology-focused companies, and the Russell 2000 small-cap index (14.2%) posted its best quarterly performance since the fourth quarter of 2011.

Flows into passive funds continue to dwarf flows into actively managed funds. In the first two months of 2019, active U.S. funds have seen \$1.5 billion overall in inflows while passive U.S. funds have seen \$55.3 billion in inflows. Passive funds, which have increased their market share of total assets to 49%, are expected to surpass active funds in late 2019.

U.S. Government Shutdown Hampers IPO Activity

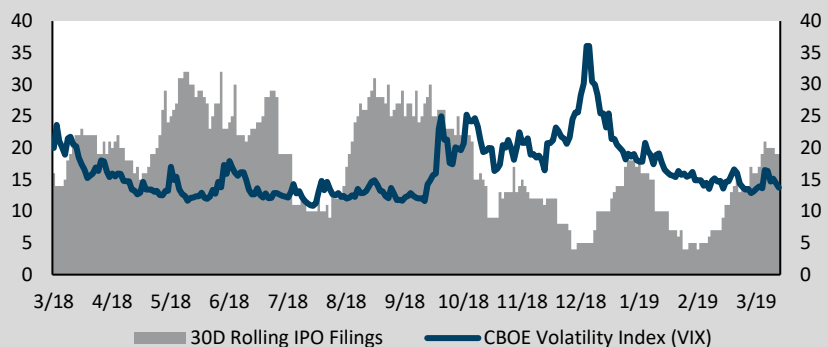
The first quarter of 2019 was the slowest quarter for IPO activity in three years, with only 17 IPOs raising a total of \$4.8 billion. The market pullback in December and the U.S. government shutdown in January pushed most issuers late into the quarter. IPO activity accelerated in March, however, culminating with Lyft's much-anticipated \$2.3 billion debut on March 28, potentially paving the way for fellow unicorns to list in the second quarter.

After Lyft, the quarter's second-largest IPO was denim apparel brand Levi Strauss, which raised \$717 million. The best-performing IPOs in the first quarter included medical device manufacturer ShockWave Medical (up 97% through quarter-end) and Chinese online brokerages UP Fintech (up 62%) and Futu Holdings (up 54%).

Private companies are increasingly exploring alternative forms of achieving public listings including

Volatility and IPO Volume

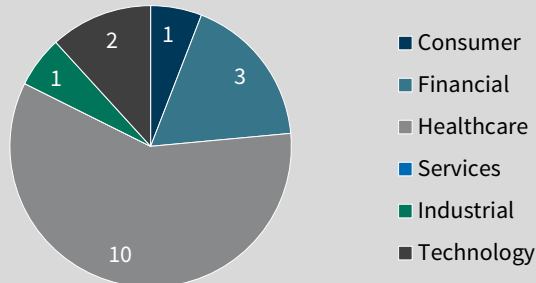
After spiking in late 2018, the CBOE Volatility Index fell 46.1% in the first quarter of 2019 and has remained below its long-term average since the middle of January.



Sources: Dealogic and FactSet

First Quarter 2019 IPOs by Sector

Healthcare accounted for more than half of the first quarter's IPOs, led by continued enthusiasm around biotech. Financial and technology were the only other sectors with more than one IPO.



Source: Dealogic

through direct listings and special purpose acquisition company (SPAC) mergers. Following in Spotify's footsteps, workspace messaging application Slack is planning a direct listing in the second quarter. In the first quarter, 15 SPAC IPOs priced, the most since the fourth quarter of 2007.

Pricing for first-quarter IPOs was strong—88% of the IPOs priced in or above the range—but aftermarket performance was muted. First-day returns in the quarter averaged 13%, and average aftermarket performance through March 31 was 14%.

IPO Filing Activity Surges in March

In the first quarter, 36 companies filed to go public. More than half of these filings occurred in March, signaling that the IPO market is likely to surge after a quiet start to the year. Notable new filings included healthcare IT company Change Healthcare, lab equipment and services provider Avantor, social photo sharing platform Pinterest, and Chinese e-commerce site Yunji, all of which are expected to raise at least \$1 billion. The active backlog now stands at 48 companies looking to raise \$4 billion

collectively—although visibility into the backlog is limited by the fact that most companies are taking advantage of the new SEC rule that allows companies of all sizes to file confidentially.

The shadow backlog of companies rumored to be pursuing IPOs includes ride-share unicorn Uber, which is expected to make its market debut in the second quarter after announcing it had chosen to list on the New York Stock Exchange; internet-enabled exercise bike manufacturer Peloton; online food delivery platform Postmates; Slack; and healthcare analytics company Health Catalyst. Two long-anticipated mega-deals, WeWork and Airbnb, will likely be pushed back to late 2019 or early 2020.

Healthcare and Technology Lead Follow-on Offerings

Led by the healthcare and technology sectors, the first quarter saw 132 follow-on offerings raising a total of \$24 billion in proceeds, down year-over-year but up from the fourth quarter of 2018. Confidentially marketed/overnight deals accounted

for 42% of follow-ons in the first quarter, up from 30% in 2018, as small-cap issuers sought to avoid public market exposure during volatile market conditions.

The first quarter also saw a surge in convertible debt offerings after a sluggish second half of 2018. For the first quarter, 28 offerings priced raising \$11 billion in proceeds. Given strong investor demand for convertibles, these offerings have become attractive to issuers as a way to lock in favorable financing terms and low borrowing costs in a rising-rate environment.

Outlook: Robust IPO Pipeline Points to Active Second Quarter

Multiple signs point to a very active IPO market in the second quarter, especially considering that the market backdrop has stabilized and volatility has subsided. This building momentum is highlighted by highly anticipated debuts of unicorns Uber, Pinterest, and Slack in the second quarter. Venture capital/crossover activity in biotech should continue to fuel the IPO pipeline. Moreover, foreign companies, especially from China, are increasingly looking to list in the United States due to the greater stability of American capital markets.

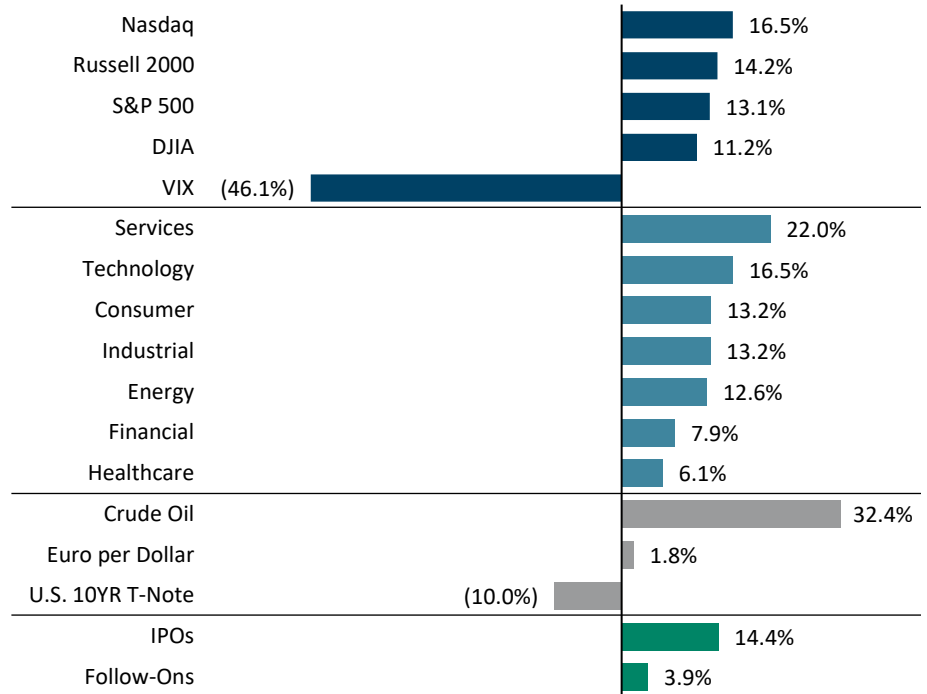
Nevertheless, unexpected monetary policy changes by central banks around the world, escalating trade tensions, and weaker-than-expected economic reports and corporate earnings could add to market volatility and cause the windows of opportunity to access public markets to narrow.

ECM Quarterly Market Analysis

Each quarter we look behind the numbers to examine the trends and dynamics that are driving activity in equity capital markets.

Index, Sector, and Asset Class Performance – First Quarter 2019

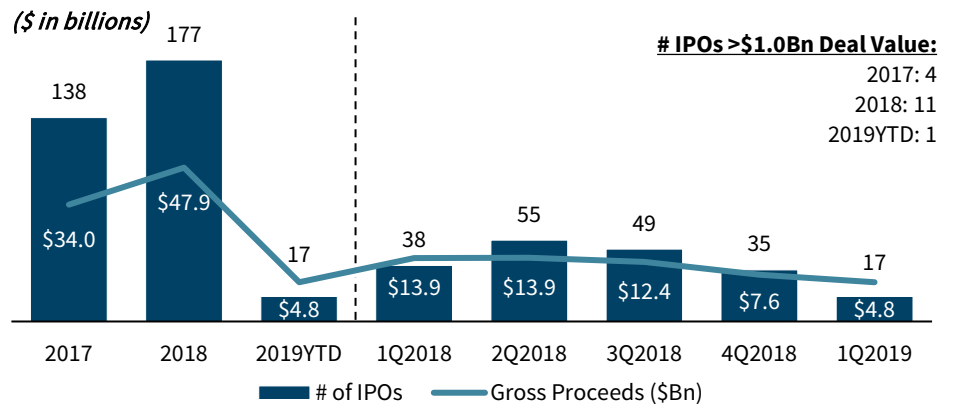
All major indexes posted double-digit gains in the first quarter, led by the Nasdaq, which saw its biggest quarterly return in seven years thanks to an increase in corporate profits for technology-focused companies. All 11 sectors of the S&P 500 gained in the first quarter for the first time since 2011.



Sources: Dealogic and FactSet; data through 3/31/19

IPO Volume by Year and Quarter

The 17 U.S.-listed IPOs in the first quarter of 2019 represented the slowest quarter in three years. The slowdown is largely attributable to the market rout in December and the government shutdown in January, both of which pushed issuers later into the quarter or into the second quarter.



Sources: Dealogic and FactSet

Note: All IPO and follow-on data excludes offerings for yield products (BDCs, CLEFs, MLPs, SPACs and REITs)

IPO Overview – First Quarter 2019

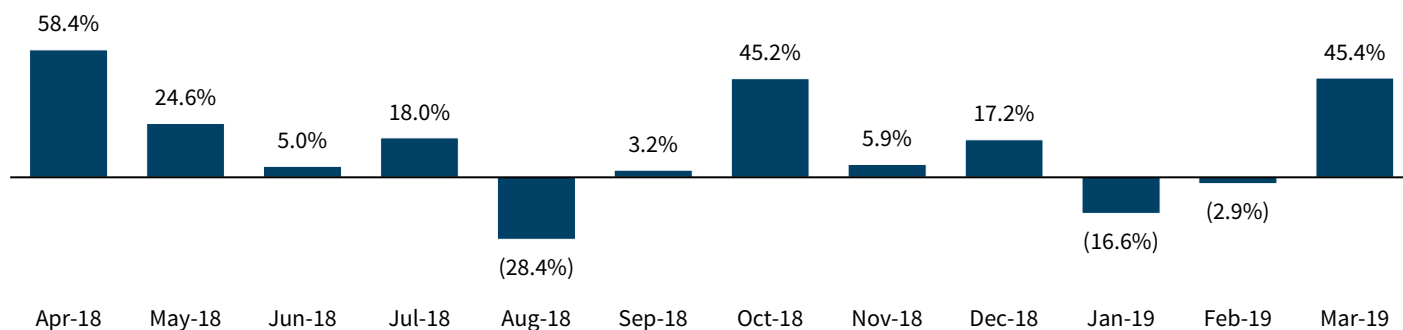
The first quarter's IPOs were headlined by the long-anticipated debut of Lyft, which raised \$2.3 billion. Lyft's debut should pave the way for a bevy of other technology unicorns that have already announced plans to go public. Despite Lyft's mega-offering, the high number of biotech IPOs coupled with the dearth of private-equity-backed exits resulted in a median offering size for the first quarter of just \$103 million.

Largest IPOs (\$ in millions)

Pricing Date	Issuer	Deal Value	Market Value	Sector
3/28/19	Lyft Inc	\$2,340.0	\$20,583.2	Technology
3/20/19	Levi Strauss & Co	\$716.8	\$6,646.9	Consumer
2/7/19	Gossamer Bio Inc	\$317.4	\$1,053.8	Healthcare
1/30/19	New Fortress Energy LLC	\$291.7	\$2,350.5	Industrial
2/6/19	Alector Inc	\$185.1	\$1,308.2	Healthcare
3/27/19	Precision BioSciences Inc	\$126.4	\$784.5	Healthcare
3/19/19	UP Fintech Holding Ltd	\$119.6	\$1,079.9	Financial
3/6/19	Shockwave Medical Inc	\$111.4	\$461.9	Healthcare
3/7/19	Futu Holdings Ltd	\$103.5	\$1,276.0	Financial
2/13/19	TCR2 Therapeutics Inc	\$86.3	\$359.1	Healthcare

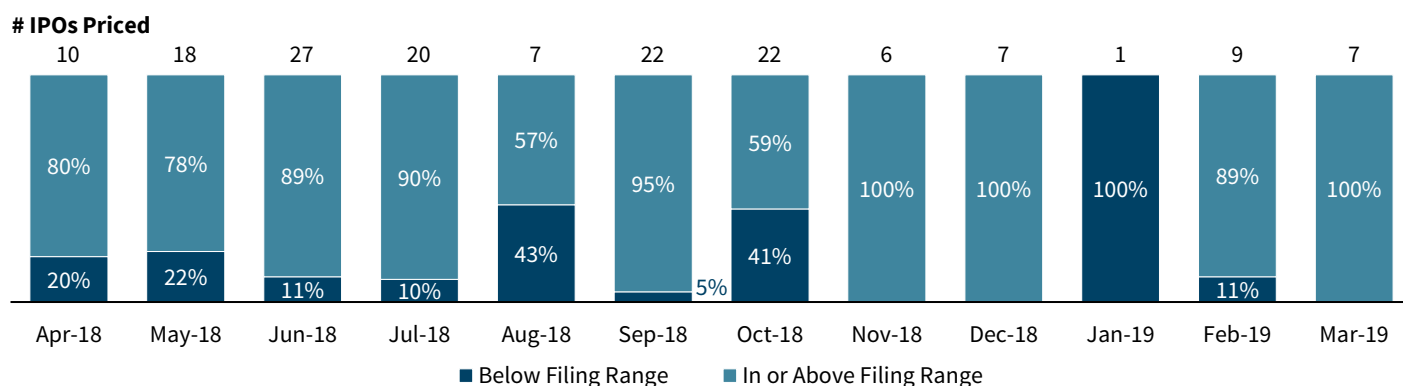
Source: Dealogic

Average Aftermarket Performance of Each Month's IPOs Through 3/31/19



Source: Dealogic

Pricing vs. Filing Range

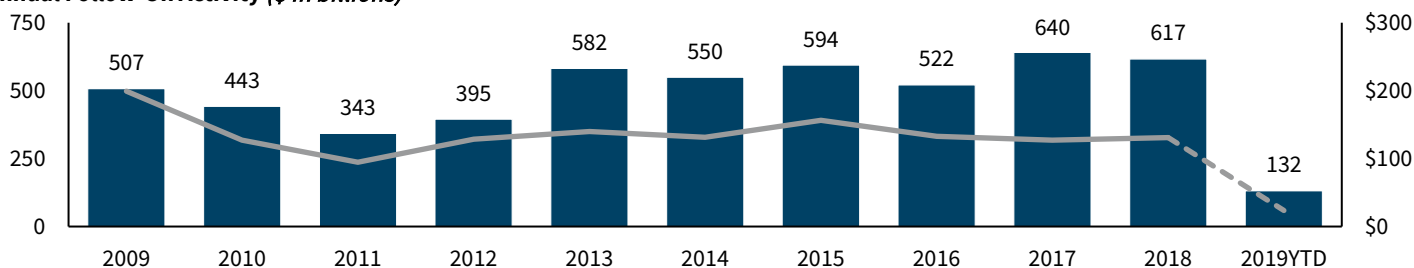


Source: Dealogic

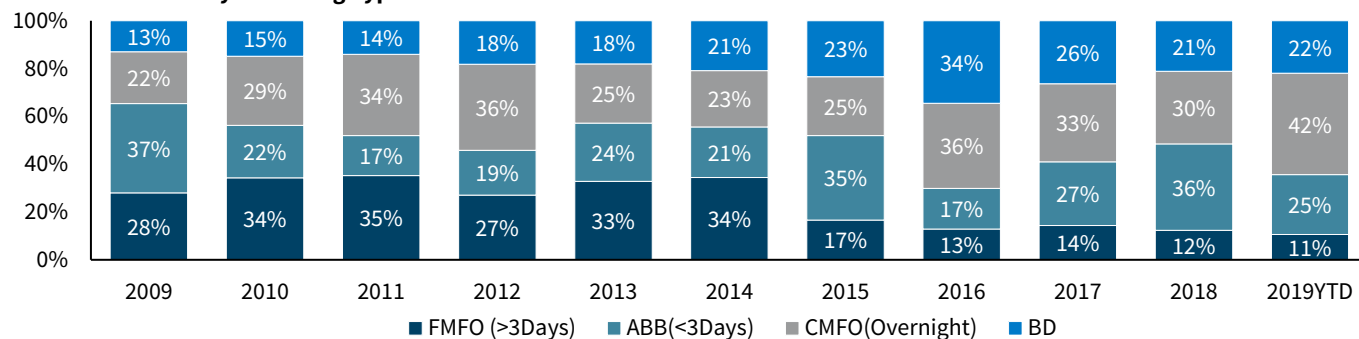
Follow-On Offering Overview – First Quarter 2019

The \$24 billion raised via follow-ons during the first three months of 2019 marked a year-over-year decline. The U.S. government shutdown hampered activity as only issuers with effective registration statements could access public markets. Confidentially marketed/overnight deals accounted for 42% of first-quarter follow-ons—a significant increase from 2018 as small-cap issuers sought to avoid public market exposure during volatile conditions.

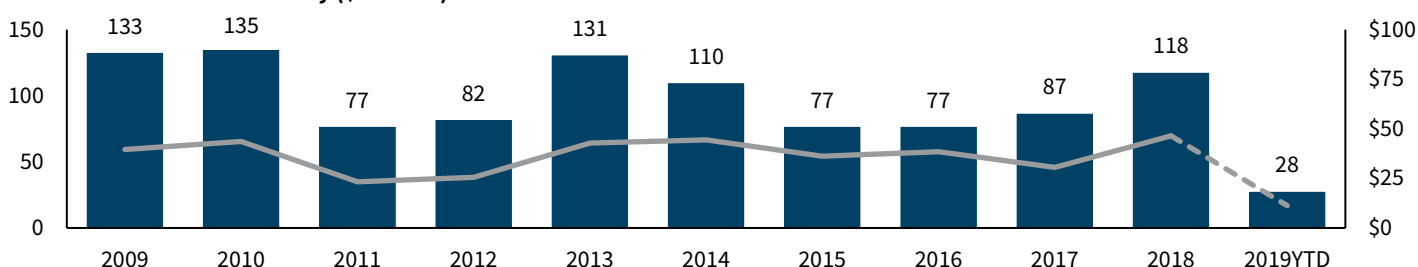
Annual Follow-On Activity (\$ in billions)



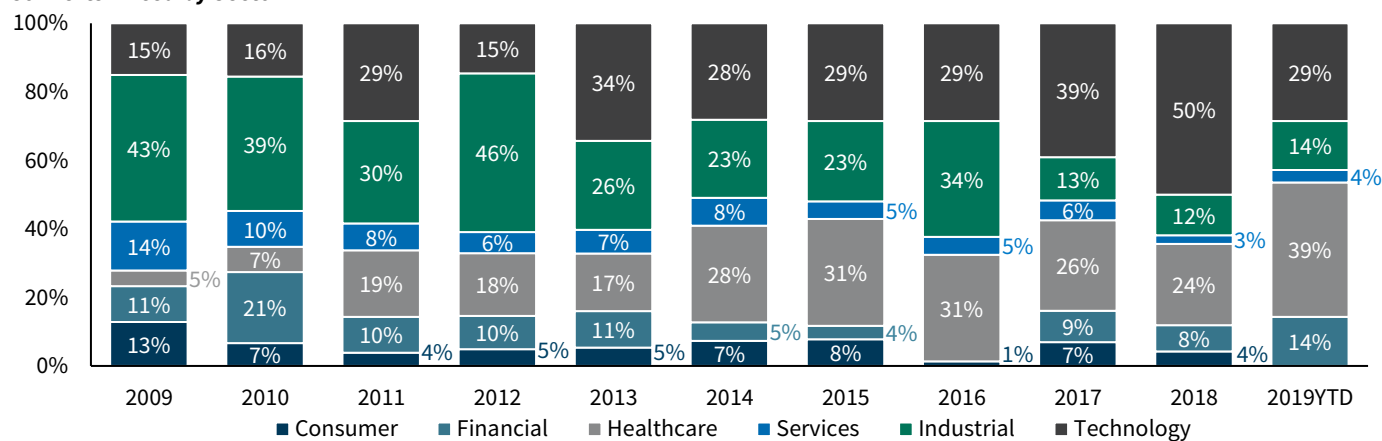
Follow-Ons Priced by Marketing Type



Annual Convertible Debt Activity (\$ billions)



Converts Priced by Sector



Source: Dealogic

Drawing on our deep sector expertise and the strength of our relationships, William Blair has built a leading equity capital markets franchise. Business owners and financial sponsors turn to us for outstanding execution for their capital-raising objectives.


Recent transactions include:

\$25,999,999

 PIPE
 March 2019

\$292,875,000

 Follow-on Offering
 March 2019

\$718,218,171

 Follow-on Offering
 March 2019

\$230,000,000

 Convertible Notes
 February 2019

\$32,987,556

 Confidentially Marketed Follow-on
 February 2019

\$146,136,250

 Follow-on Offering
 January 2019

Bookrun/ Lead-Managed

**William Blair
 By the Numbers***

310
equity offerings

\$71.2
billion raised

17%
IPO market share

31%
of ECM activity is bookrun

* Equity Capital Markets activity for the period January 1, 2015 through March 31, 2019

Top Rankings in 2018 Greenwich Associates Survey

William Blair's institutional equity research, sales, and trading groups received multiple top rankings in the 2018 Greenwich Associates survey. Small- and midcap portfolio managers ranked William Blair No. 1, No. 2, or No. 3 in over ten categories in the Greenwich survey, which is the preeminent survey in the institutional investor community.

No. 1 rankings

- Potential to gain share over the next twelve months
- Access to research analysts
- First firm relationships

No. 2 rankings

- Quality of research / advisory services
- Knowledge of companies & industries
- Share of equity research and macro research citations
- Tailored research calls and services

No. 3 rankings

- Lead research / advisory firm
- Research coverage intensity
- Quality of equity analyst service
- Equity sales capability
- Top 10 Relationships
- Most useful conferences / industry seminars

Access to Industry Leaders

William Blair is committed to providing the equity capital markets community access to leading industry investors and companies around the globe. To learn more about attending our upcoming conferences, please contact Gary Morabito (gmorabito@williamblair.com).

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Equity Capital Markets

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* As of March 31, 2014 through March 31, 2019

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