

# Equity Capital Markets Update

Q1 2018

ECM Quarterly

**Momentum Builds in Equity Capital  
Markets Despite Return of Volatility**

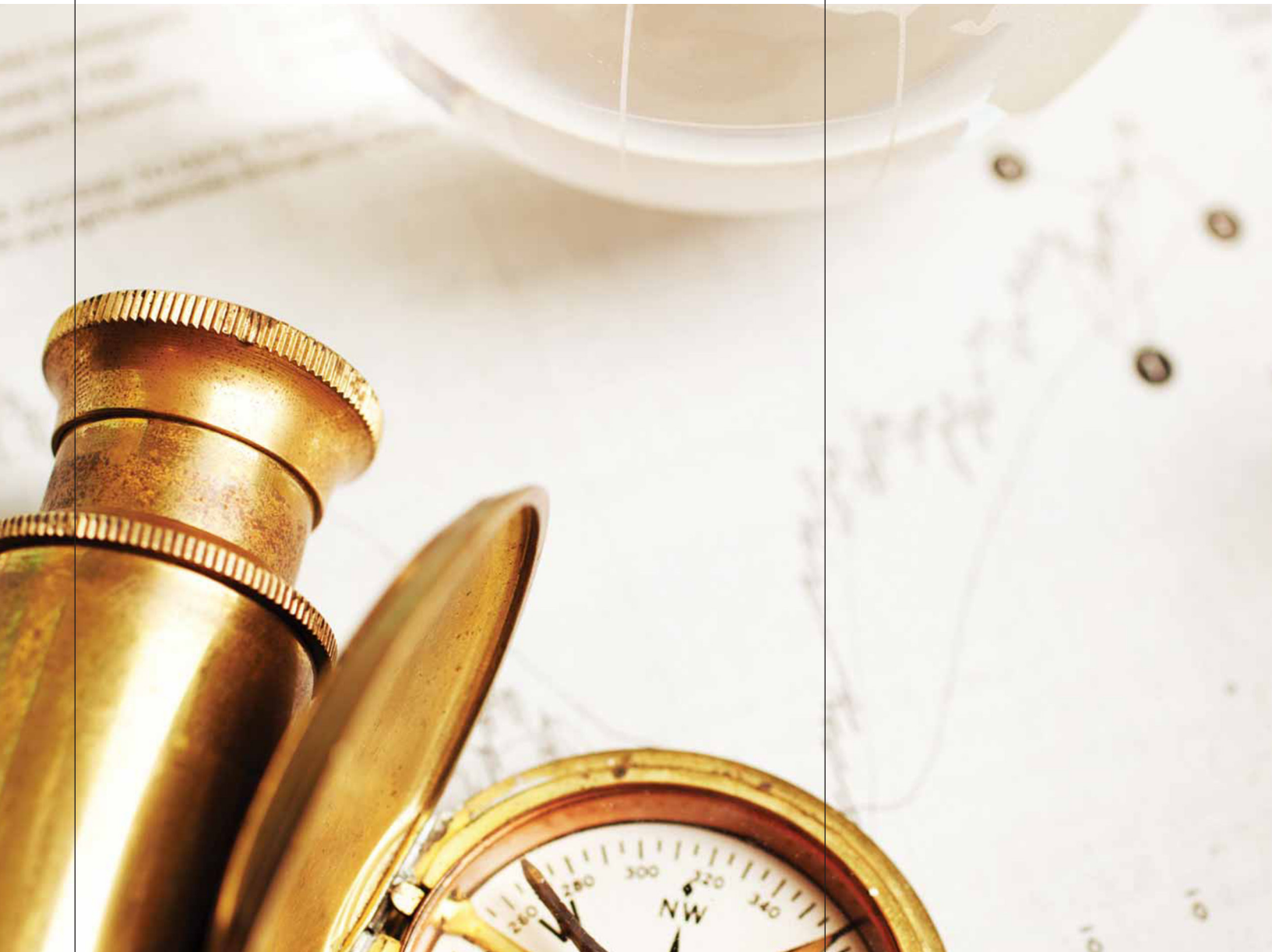
**In This Report**

IPO fundraising reaches highest level  
since third quarter 2014

IPO filing activity surges in March

Biotech and pharma lead follow-on  
uptick

Outlook: Tailwinds should persist while  
windows shorten



## Momentum Builds in Equity Capital Markets Despite Return of Volatility

### Mega-IPOs and high-profile technology offerings drove the highest IPO fundraising levels since mid-2014.

The first quarter of 2018 saw volatility return to U.S. capital markets as inflation fears, concerns about a potential global trade war, and a sell-off in technology stocks weighed on equity markets.

After U.S. indexes reached record highs in January, equity markets entered correction territory in February as fears mounted about the pace of central banks' interest rate increases. After a brief recovery, stocks whipsawed in March as President Donald Trump's proposal to impose tariffs on steel and aluminum imports triggered concerns about a global trade war, particularly with China. What's more, controversy about how Facebook and other large technology companies protect user data stoked fears of tighter regulation of the technology industry.

While geopolitical and regulatory concerns weighed on investor sentiment, corporate performance continued gaining momentum, with 76% of S&P 500 companies beating earnings estimates and 77% beating top-line estimates. For the quarter, the S&P 500 (-1.2%) and the Dow Jones Industrial Average (-2.5%) posted their first quarterly losses since the second quarter of 2015, and the Nasdaq posted its weakest gain (2.3%) since the fourth quarter of 2016.

Despite record inflows into equity mutual funds and exchange-traded funds in January 2018, an estimated \$29.4 billion was withdrawn from U.S. stock funds during the quarter as a whole.

### IPO Fundraising Reaches Highest Level Since Third Quarter 2014

The growing momentum in IPO activity seen in the fourth quarter of 2017 continued into the first three months of 2018. In the first quarter, 38 IPOs priced, generating proceeds of \$13.7 billion, the highest amount since mid-2014. Thanks largely to three \$1 billion-plus offerings—Brazilian mobile payments processor PagSeguro (\$2.6 billion), Chinese video-streaming site iQiyi (\$2.3 billion), and U.S. security services provider ADT (\$1.5 billion)—the first quarter's average IPO size surged to \$361 million, a 47% increase over

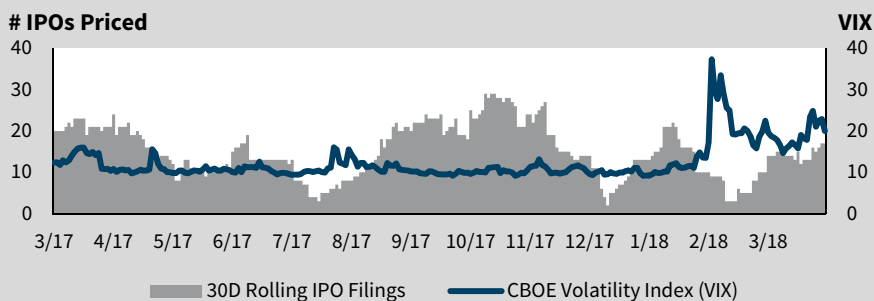
2017. Other large IPOs that priced in the first quarter include Dropbox (\$869 million), Gates Industrial (\$841 million), and Hudson (\$749 million).

Spotify made its long-awaited public market debut on April 3 by circumventing the traditional IPO process and directly listing the company's shares on the New York Stock Exchange. Spotify's direct listing was the seventh-largest public flotation in the technology industry.

The best-performing IPOs in the first quarter included biotech ARMO BioSciences (up 120%), PagSeguro (up 73%), cybersecurity firm Zscaler (up 72%), and Dropbox (up 48%). Pricing for first-quarter IPOs was strong, but aftermarket performance was mixed. In the first quarter, 89% of the IPOs priced in or above the range, up from 73% in 2017. Zscaler's 106% increase on the first day of trading was

### Volatility and IPO Activity

After a historically quiet year in 2017, the VIX surged in February 2018 to its highest level since August 2015 and posted its highest quarterly average close since the third quarter of 2016. The return of volatility will require issuers to be more opportunistic in identifying windows to access public markets.



Source: Dealogic and FactSet

the largest first-day pop in the quarter—and the largest for a \$50 million-plus IPO since 2016. First-day returns in the quarter averaged 15.8%, but the average aftermarket performance through March 31 was just 10.4%. Only 42% of the first-quarter IPOs closed above the issue price.

### IPO Filing Activity Surges in March

In the first quarter, 35 companies filed to go public, and nearly half of these filings occurred in the last two weeks of March. Notable new filings included Vrio, Ceridian, Pivotal Software, DocuSign, IPSCO Tubulars, and FirstCaribbean International Bank.

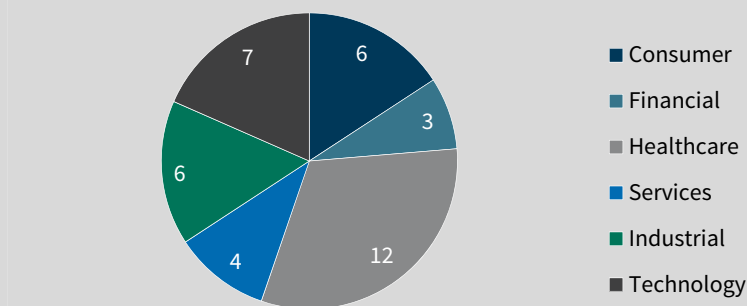
The active backlog now stands at 38 companies looking to raise \$4 billion collectively. The industrial, technology, and healthcare sectors together account for approximately three-fourths of the total backlog. The shadow backlog of companies rumored to be pursuing IPOs includes high-profile technology names—Lyft, Stripe, Slack, and WeWork—and Chinese companies Meituan-Dianping and Tencent Music. Two long-rumored mega-deals, Uber and Saudi Aramco, will likely be pushed back to 2019.

### Biotech and Pharma Lead Follow-On Uptick

Led by the healthcare and technology sectors, the first quarter saw 171 follow-on offerings raising a total of \$37 billion in proceeds, the highest fundraising level in nearly two years. Biotechnology and pharmaceutical

### First Quarter 2018 IPOs by Sector

Healthcare accounted for nearly one-third of the first quarter's IPOs. The sector also accounted for more than half of the follow-on offerings during the quarter.



Source: Dealogic

companies accounted for the vast majority of the healthcare follow-on activity, spurred by positive clinical outcomes and increased M&A activity.

The first quarter also saw a surge in convertible debt offerings for growth companies; 34 offerings priced, raising \$11.7 billion in total proceeds. This represented the most active quarter by number of offerings since 2013. 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: Tailwinds Should Persist While Windows Shorten

Several trends suggest that the equity capital markets momentum seen in the first quarter will continue over the next several quarters. Analysts are predicting the strongest corporate earnings since 2011, and the success

of Dropbox's and Spotify's offerings could raise optimism among other technology unicorns. Meanwhile, biotechnology and pharma should continue to be significant sources of deal flow, and companies will continue to take advantage of new SEC regulations allowing issuers of all sizes to file confidentially.

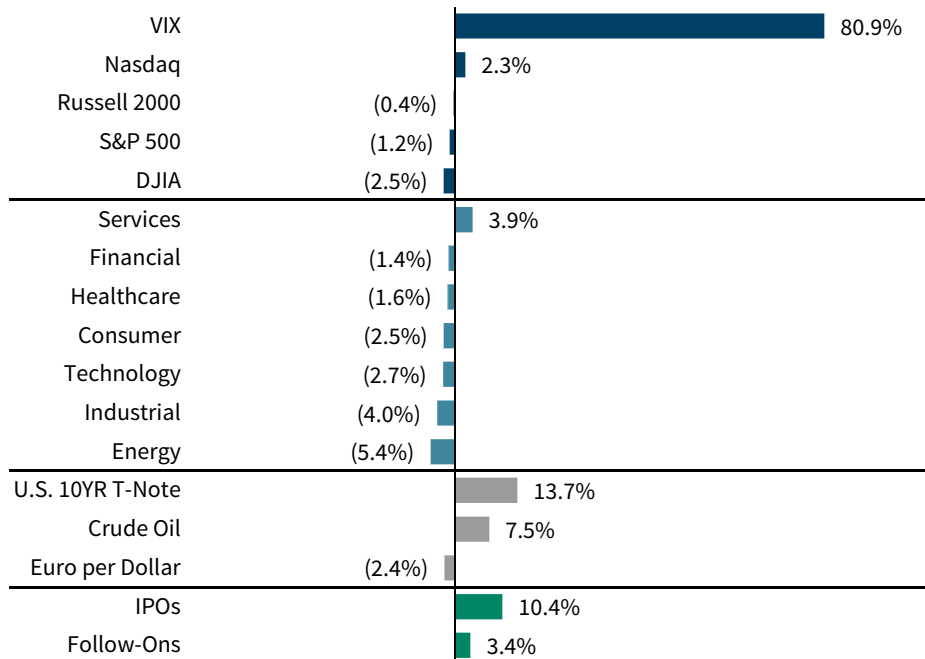
The return of volatility, however, will require issuers to be more opportunistic and selective in looking for favorable windows during which to access public markets—a marked shift from 2017. The risk of tighter-than-expected monetary policy, geopolitical uncertainty, and regulatory developments in the technology industry could add to market volatility and cause the windows of opportunity to access public markets to shorten.

## 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 2018

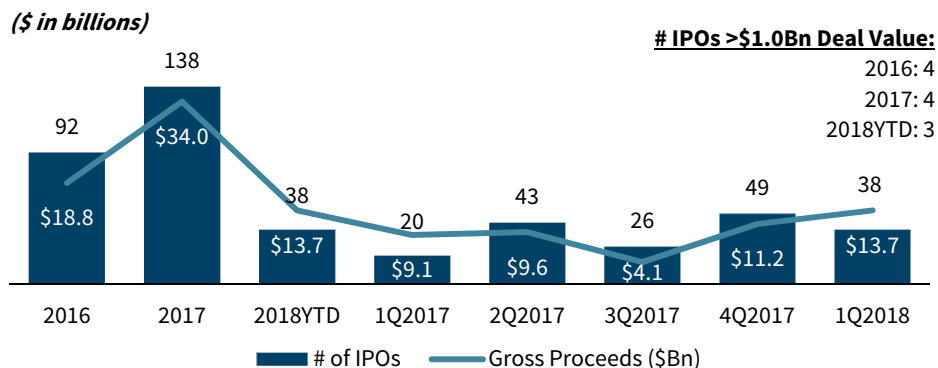
The Dow Jones Industrial Average and the S&P 500 posted their first quarterly losses since the second quarter of 2015, as services was the only sector to deliver positive performance. Because of these market headwinds, first-quarter IPOs delivered average aftermarket performance of 10.4% despite average first-day returns of 15.8%.



Sources: Dealogic and FactSet; data through 3/31/18

### IPO Volume by Year and Quarter

The \$13.7 billion in IPO proceeds in the first quarter represented the highest quarterly amount since 2014. There were three \$1 billion-plus IPOs during the first quarter, just one shy of the levels seen in either 2016 or 2017 for the entire years.



Source: 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 2018

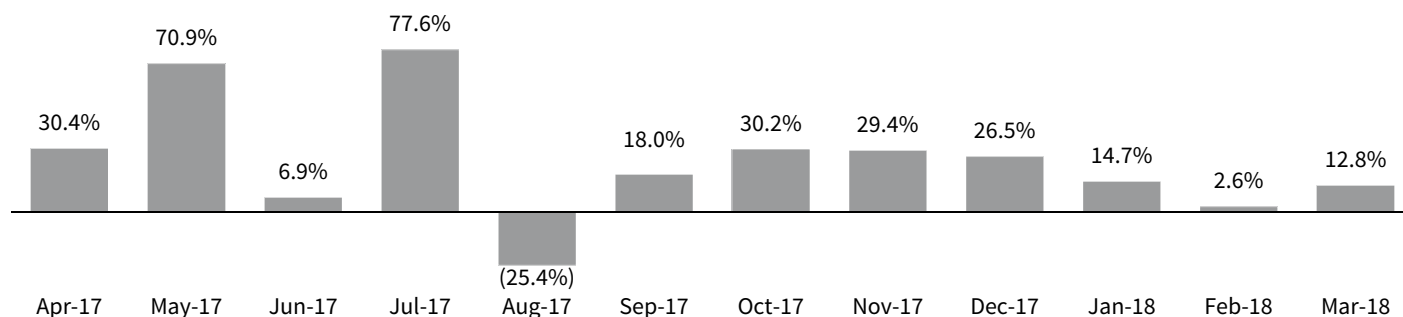
The first quarter's IPOs were headlined by several mega-deals, as well as Dropbox's high-profile debut. The strong interest in Dropbox and the success of Spotify's direct listing could pave the way for other technology unicorns to achieve their targeted valuations in public markets. Eighty-nine percent of the quarter's IPOs priced in or above the range, up from 73% in 2017.

### Largest IPOs (\$ in millions)

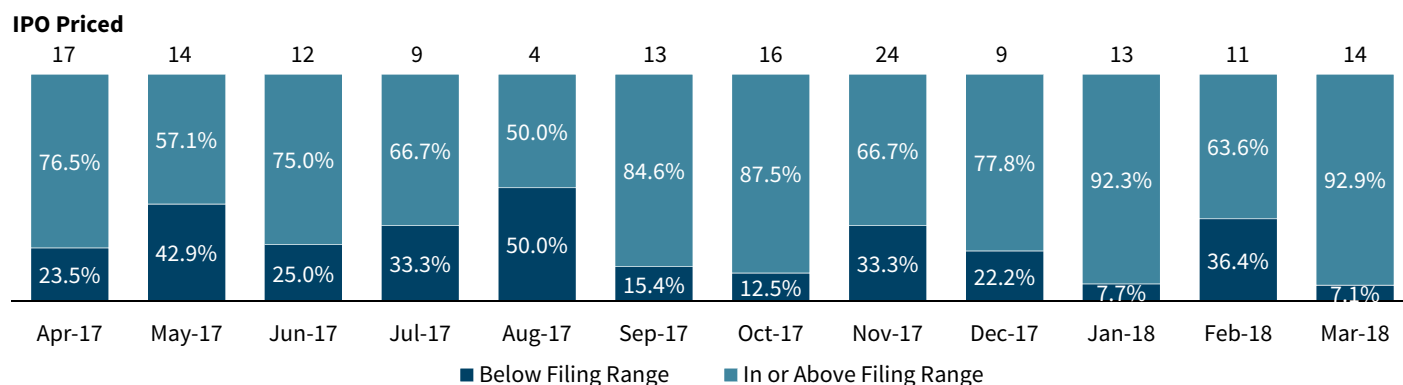
Pricing Date	Issuer	Deal Value	Market Value	Sector
1/23/18	PagSeguro Digital Ltd	\$2,605.7	\$6,855.5	Technology
3/28/18	iQIYI Inc	\$2,250.0	\$12,738.5	Consumer
1/18/18	ADT Inc	\$1,470.0	\$10,485.3	Services
3/22/18	Dropbox Inc	\$869.4	\$8,366.9	Technology
1/24/18	Gates Industrial Corp plc	\$841.2	\$5,505.2	Industrial
1/31/18	Hudson Ltd	\$748.9	\$1,757.7	Consumer
2/7/18	Cactus Inc	\$502.6	\$1,925.5	Industrial
2/1/18	Corporacion America Airports SA	\$485.7	\$2,720.4	Services
3/28/18	Bilibili Inc	\$483.0	\$3,202.6	Consumer
2/1/18	FTS International Inc	\$403.7	\$1,968.4	Industrial

Source: Dealogic

### Average Aftermarket Performance of Each Month's IPOs Through 3/31/18



### Pricing vs. Filing Range

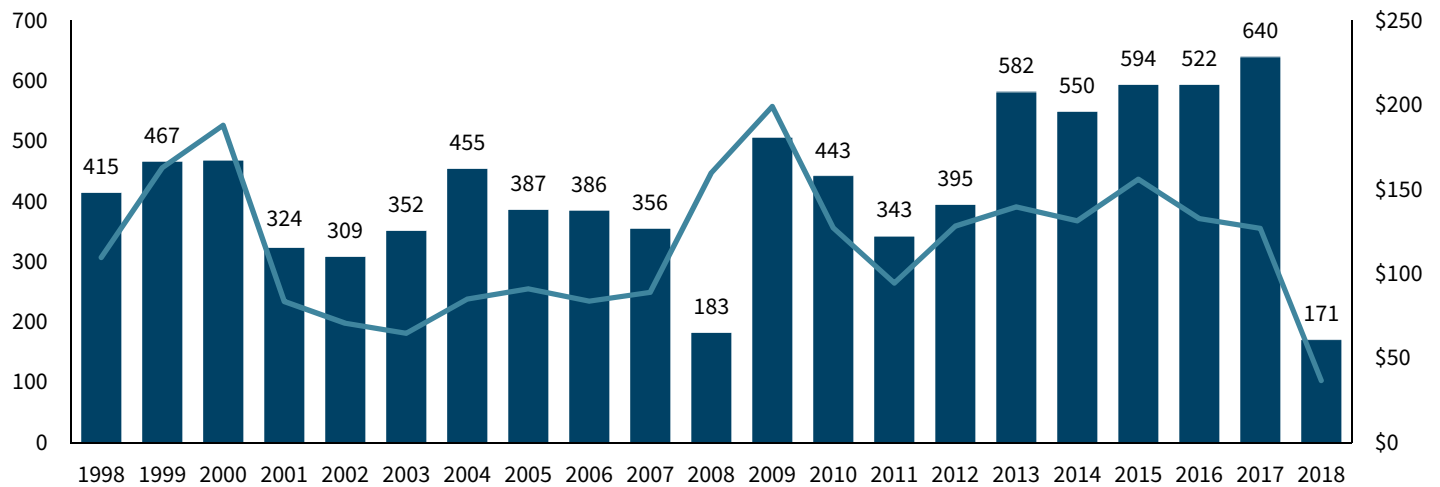


Source: Dealogic

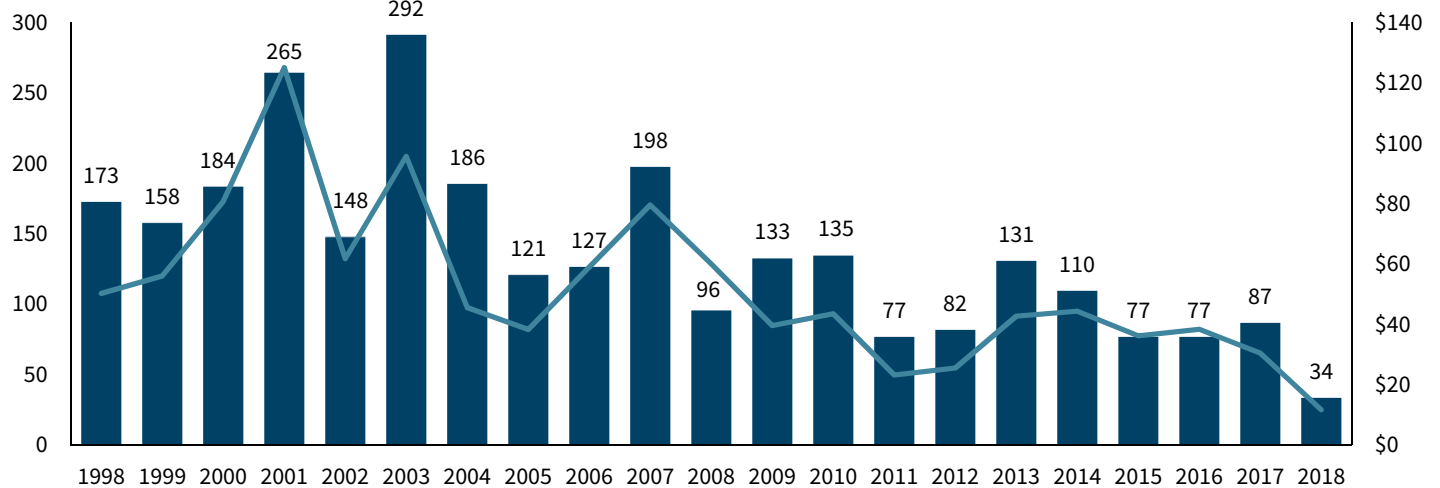
### Follow-On Offering Overview – First Quarter 2018

The \$37 billion raised via follow-ons during the first three months of 2018 marked the most active quarter since mid-2015. Led by activity in the healthcare and technology sectors, the first quarter saw a surge in convertible debt offerings, which have become increasingly popular for issuers looking to lock in low financing costs in a rising-rate environment.

**Annual Follow-On Activity (\$ in billions)**



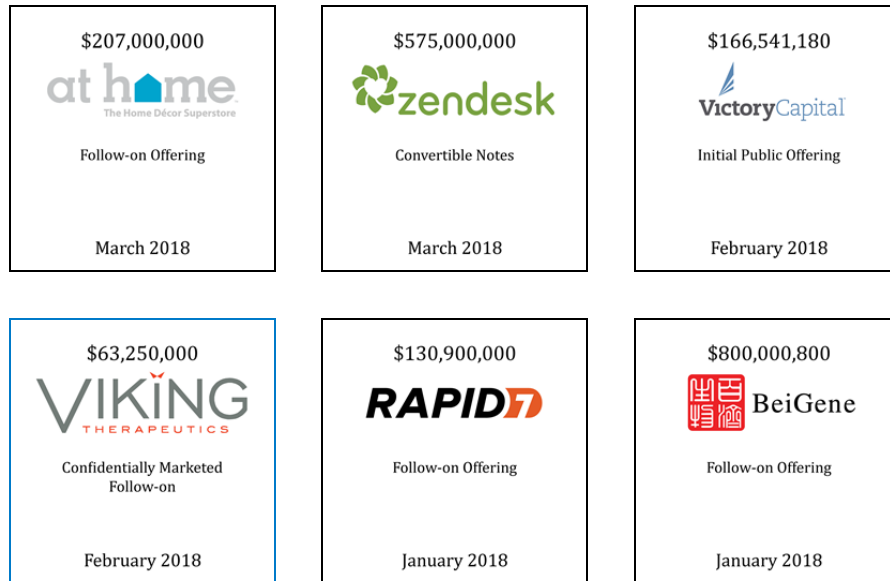
**Annual Convertible Debt Activity (\$ billions)**



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:**



Bookrun/ Lead-Managed

**William Blair  
By the Numbers\***

**237**

*equity offerings*

**\$52.4**

*billion raised*

**19%**

*IPO market share*

**28%**

*of ECM activity is bookrun*

\* Equity Capital Markets activity for the period January 1, 2015 through March 31, 2018



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- Service intensity
- Coverage intensity
- First firm relationships
- Access to research analysts
- Knowledge of companies & industries
- Tailored research calls and services

#### No. 2 rankings

- Top 10 Relationships

#### No. 3 rankings

- Equity sales capability
- Quality of equity analyst service

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\* As of December 31, 2017



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