Q1 2016
Investment Banking

After 1Q Slowdown, IPO Markets Poised for 2Q Rebound

In This Report
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Full pipeline awaits reopening of IPO window

Reduced volatility, lowered earnings expectations point to increased second-quarter activity
After 1Q Slowdown, IPO Markets Poised for 2Q Rebound

Heightened volatility in early 2016 led to only six IPOs in the first quarter. But stabilizing markets and a full pipeline have set the stage for renewed IPO activity in the second quarter and beyond.

The first quarter of 2016 was a tale of two halves for equity markets. The first six weeks of the quarter were defined by intense volatility driven by concerns over China’s slowing growth and massive oversupply in energy markets. With oil dropping to $26.21 per barrel, all major U.S. equity indexes entered correction territory, falling more than 10% from January 1 to February 11. Reflecting the sustained levels of heightened volatility, the VIX traded above 20.0 for 35 of the first 40 trading days of 2016, reaching a high of 28.14 on February 11.

Equity markets rebounded sharply in the second half of the quarter. Fueled by the stability of the U.S. dollar, a reversal in oil prices, fading fears of a U.S. recession, and a more dovish stance on interest rates from the Federal Reserve, U.S. equity markets recovered their early 2016 losses in late February and March. Large-cap stocks led the rebound; the Dow finished the quarter up 1.5% and the S&P 500 was up 0.8%. Small cap stocks were down for the quarter, with the Nasdaq and Russell 2000 ending the quarter down 2.7% and 1.9%, respectively.

Biotech, which has been the most active sector in terms of new issuances over the past two years, did not participate in the recovery, however. Weighed down by concerns about government intervention on drug pricing, increased financing risk, and the breakdown in investor support for Valeant’s shares, the Nasdaq Biotech Index fell 23% during the first quarter.

IPO Markets Experience Slowest Quarter Since 2009

Although the VIX traded below 20.0—the upper limit of what is considered to be IPO-friendly—every day in March and finished the quarter at 13.95, January’s and February’s volatility halted most IPO activity throughout the quarter. IPO markets also faced headwinds from markdowns in private-company valuations and pricing pressure resulting from the weak performance of 2015’s IPOs. In the first quarter, only six IPOs priced, generating $0.6 billion in total proceeds, making it the slowest quarter since the financial crisis.

After January became the first month since September 2011 without an IPO, there were four IPOs in February and two in March. The quarter was the first in seven years to not see any IPOs involving private equity firms. All six of the quarter’s IPOs were biotech companies that were supported by

Volatility and IPO Volume

After the VIX reached a high of 28.14 on February 11, volatility steadily declined throughout the remainder of the first quarter. The VIX ended the quarter at 13.95, well below the upper limit (20.0) of what is considered to be IPO-friendly.

<table>
<thead>
<tr>
<th># IPOs Priced</th>
<th>Vix</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 4/15</td>
<td>50</td>
</tr>
<tr>
<td>5 5/15</td>
<td>40</td>
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<tr>
<td>10 6/15</td>
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<tr>
<td>55 3/16</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Dealogic and FactSet
Note: All IPO and follow-on data excludes offerings for yield products (BDCs, CLEFs, MLPs, SPACs and REITs)
strong buying from existing investors and/or insiders. Four of the six IPOs priced at or above the pricing range. After posting tepid first-day returns of 0.1%, first-quarter IPOs delivered strong aftermarket performance, ending the quarter up by an average of 33.7%. Editas Medicine (Nasdaq: EDIT) led the way, posting a 115.1% return as of March 31.

Twenty companies postponed IPOs during the first quarter because of significant pushback on valuations, and many others deferred launches. Valuation concerns also caused several companies to eschew going public in favor of an acquisition, including Petco Holdings, which was acquired by CVC Capital Partners and the Canada Pension Plan Investment Board; Ellipse Technologies, which was acquired by NuVasive; and TransFirst Holdings Corp., which was acquired by Total System Services, Inc.

**Full Pipeline Awaits Reopening of IPO Window**

During the first quarter, 19 companies were added to the IPO pipeline. Most of these companies filed in early January. From a sector perspective, healthcare, industrial, and consumer collectively represent more than 70% of the 48 companies that are on file to raise a combined $5.7 billion when the IPO window reopens.

There were several companies in the active backlog that made new or updated filings during the first quarter. Albertsons, the United States’ third-largest grocery chain, is planning to make its second attempt to go public after its October 2015 IPO was postponed. The list also includes food distributor US Foods and securities exchange operator Bats Global Markets. Bats’ IPO is scheduled to price on April 14; if successful, it will be the first non-healthcare IPO of 2016.

**Positive Backdrop Points to Increased Second-Quarter Activity**

Heading into the second quarter, the market environment appears to be much more conducive to IPO activity. Volatility has subsided and this stability should be further bolstered by a rebalancing of valuations and earnings expectations that occurred in the first quarter. In reporting fourth-quarter earnings, companies largely set cautious guidance for 2016 amid the global macroeconomic concerns and the usual uncertainty that accompanies a U.S. presidential election year. This should increase the chances that companies will meet or exceed those modest expectations over the course of the year.

Against this backdrop, we expect the IPO window to reopen in the second quarter. The first wave of companies to test the strength of the markets will largely comprise stable, mature companies with strong cash flows. The investor reception and performance of these “IPO icebreakers” will be closely watched and have an outsized impact on market receptivity over the rest of the quarter.
Index and Sector Performance – 1Q 2016
After entering correction territory over the first six weeks of 2016, equity markets rebounded over the last half of the quarter. The rally was led primarily by large-cap stocks, as sectors such as biotech (down 23% during the quarter) dragged down the performance of the Nasdaq and Russell 2000.

IPO Activity Remains Quiet in 1Q 2016
Heightened volatility early in the quarter coupled with markdowns in private-company valuations and pricing pressure from the weak performance of 2015’s IPOs put a damper on IPO activity during the first quarter. Only six IPOs priced, generating $0.6 billion in total proceeds, making it the slowest quarter since the financial crisis.

Overall IPO Volume ($ in billions)

Source: Dealogic

Note: All IPO and follow-on data excludes offerings for yield products (BDCs, CLEFs, MLPs, SPACs and REITs)
IPOs – 1Q 2016

All six of the IPOs to price during the first quarter involved biotech firms that were supported by strong levels of buying from insiders and/or existing investors. Despite delivering the worst first-day returns since fourth quarter 2008, the first quarter 2016 IPOs were up an average of 33.7% as of March 31.

<table>
<thead>
<tr>
<th>Pricing Date</th>
<th>Issuer</th>
<th>Deal Value</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/2/16</td>
<td>BeiGene Ltd</td>
<td>$182.2</td>
<td>Healthcare</td>
</tr>
<tr>
<td>2/2/16</td>
<td>Editas Medicine Inc</td>
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<td>Healthcare</td>
</tr>
<tr>
<td>2/10/16</td>
<td>AveXis Inc</td>
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<td>Healthcare</td>
</tr>
<tr>
<td>3/22/16</td>
<td>Corvus Pharmaceuticals Inc</td>
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<td>Healthcare</td>
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<td>Syndax Pharmaceuticals Inc</td>
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<tr>
<td>2/10/16</td>
<td>Proteostasis Therapeutics Inc</td>
<td>$50.0</td>
<td>Healthcare</td>
</tr>
</tbody>
</table>

Source: Dealogic

Follow-On Offerings – 1Q 2016

Follow-on activity in the first quarter fell significantly from 2015 levels. The majority of the follow-ons used shelf registration statements and, as a result of the volatility, marketed their offerings over accelerated periods or via confidential offerings.

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 turn to us for outstanding execution for their capital-raising objectives.

Recent transactions include:

- **Sportsman's Warehouse**: $67,500,000 Follow-on Offering, April 2016
- **Mercury** (Confidentially Marketed Follow-on): $99,618,750 Follow-on Offering, April 2016
- **Agile Therapeutics**: $40,250,002, January 2016
- **TreeHouse Foods**: $862,499,950 Follow-on Offering, January 2016
- **AgriMax**: $66,125,000 Follow-on Offering, January 2016
- **Collegium Pharmaceutical**: $55,000,000 Follow-on Offering, January 2016

☐ Denotes William Blair Bookrun offerings

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**William Blair by the Numbers***

- **95** equity offerings
- **$22.8** billion raised
- **23%** IPO market share
- **25%** of ECM activity is bookrun

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* Equity Capital Markets activity for period January 1, 2015 through March 31, 2016
William Blair’s institutional equity research, sales, and trading groups received multiple top rankings in the 2015 Greenwich Associates survey. Small- and midcap portfolio managers ranked William Blair No. 1, No. 2, or No. 3 in nine categories in the Greenwich survey, which is the preeminent survey in the institutional investor community.

No. 1 rankings

- Sales
- Corporate access quality
- Provide intensive service
- Best coordinate access to analysts

No. 2 rankings

- Greatest knowledge of companies and industries
- Provide information and insights that generate “alpha”
- Best tailor research calls and services to client-specific needs

No. 3 rankings

- Most useful conferences and seminars
- Make most calls and visits

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*As of December 31, 2015
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