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The IPO Expert

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2008 Global IPO Market Year-End Review and Analysis

Rough year for IPOs may lead to opportunities in 2009

In recent decades, the global IPO market proved to be remarkably resilient. IPO activity weathered the 1987 market crash, the Russian debt implosion, the credit crisis of Long Term Capital Management, the Internet bubble bursting and 9/11. However, this year's unprecedented financial crisis caused global IPO issuance to come to a near halt in mid-2008. The few stocks that managed to go public performed poorly and were pulled down further by the broader markets. The average new issue was down 35% by year-end (US performance was not much better, averaging -27%**,** the worst since the 1973 recession). Although these returns were in line with the broader indices, investors were discouraged by negative absolute returns and avoided further participation in IPOs. At the same time, companies that were not in dire need of financing postponed offerings instead of accepting the lower valuations demanded by potential buyers.

The overall drop in issuance was huge, with global proceeds falling 69% year-over-year, and the most established IPO markets, the US and Europe, were hit particularly hard. In the US, excluding Visa's record-breaking deal, IPO proceeds would have been the worst since 1994 as venture capital and private equity deals virtually disappeared and the market for SPACs dried up. While the successful debut and strong aftermarket performance of one US deal in November and stirrings in other markets toward the end of the year were positive signs for IPO activity, the global IPO market still has a long way to go to full recovery.

Our 2008 Annual Global IPO Review will analyze activity and returns in the US and all other major markets and shed light on when risk capital may return.

Key takeaways:

- Global IPO activity dried up as a result of extreme risk aversion and credit woes
- US gained market share solely because of Visa's record $18 billion offering
- Almost 50% of new issues fell on their first day of trading and aftermarket performance was poor
- North America: US volume fell sharply as traditional drivers, tech, healthcare and consumer, disappeared
- Europe: Western Europe issuance fell, but Eastern Europe picked up some of the slack
- Asia-Pacific: Activity was driven by economic growth and increased stock market liquidity
- Middle East: IPOs were fueled by changing regulations, infrastructure development and privatizations
- Latin America: Financial/consumer woes stifled Brazilian deal flow
- Full pipeline should help global activity recover as long as valuations are reasonable and returns improve

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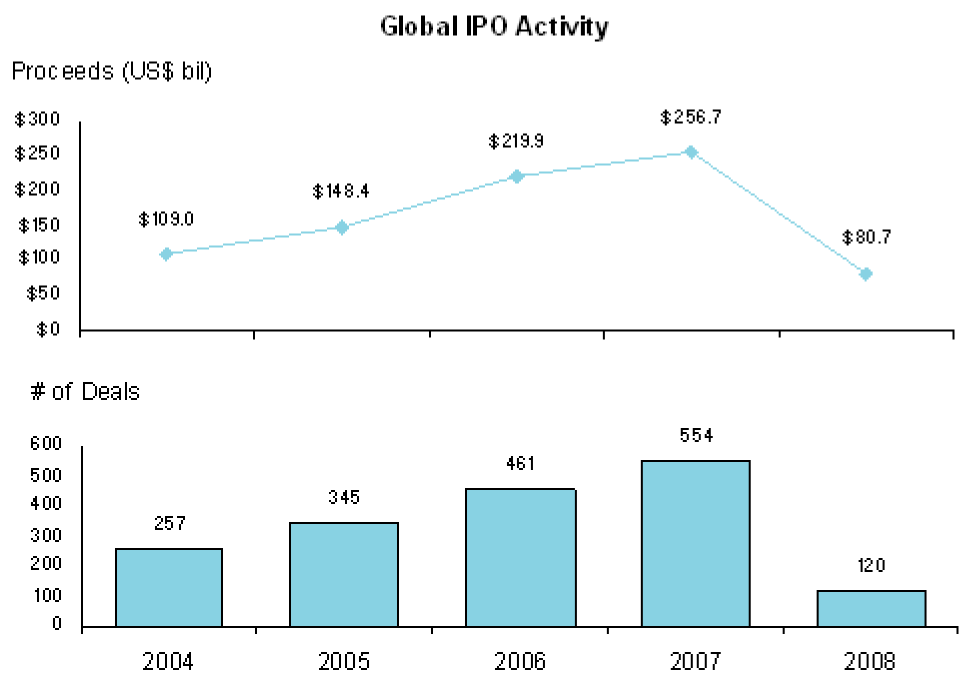
Global IPO activity dried up as a result of extreme risk aversion and credit woes

After a gradual slowing of activity over the first half of the year, the US went three months without an IPO during the second half of the year, the longest dry spell since the recession of the 1970s, and only a single November IPO prevented the drought from stretching into 2009. International activity was only marginally stronger. After 93 global IPOs in the first half, only 26 companies were able to raise over $100 million in the last six months of the year, down an incredible 91% year-over-year. For the year as a whole, the number of IPOs fell 78% to 120 and total proceeds dropped 69% to $81 billion.



U.S. gained market share solely because of Visa's record-breaking offering

In 2008, the U.S. market share of global IPO activity was 30% compared with 17% in 2007, thanks solely to the $18 billion Visa offering; without Visa, its market share would have dropped to 10%. While Visa was comfortably the largest deal of the year, the next fourteen largest deals were listed on non-U.S. exchanges. Three of the top fifteen deals were Saudi Arabian, highlighting the Middle East's emergence in the IPO market; the region accounted for 16% of total proceeds, up from 6% last year. The Asia-Pacific region also contributed several billion-dollar deals, making it the only other major region to gain market share, albeit only slightly.

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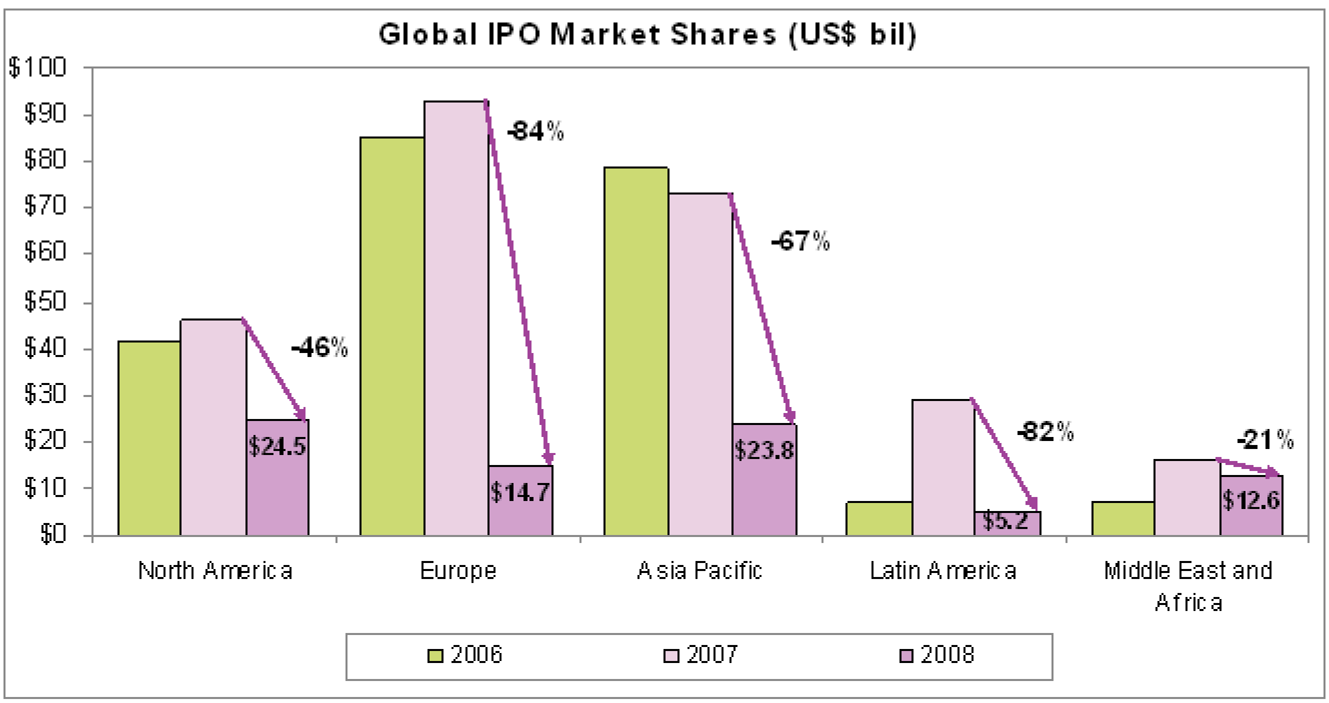
Largest IPOs

Company	Ticker	Market Country	Offer Date	Deal Size ($bil)	Industry	Return*
Visa	V	United States	3/18/2008	$17.86	Financial	19%
China Railway Construction†	1186.HK	Hong Kong	3/6/2008	$5.46	Capital Goods	8%
OGX Petroleo e Gas	OGXP3.BZ	Brazil	6/11/2008	$4.09	Energy	-53%
Reliance Power	RPWR.IN	India	1/21/2008	$2.96	Energy	-73%
Alinma Bank	ALINMA.AB	Saudi Arabia	6/2/2008	$2.80	Financial	11%
Ma'aden	MAADEN.AB	Saudi Arabia	7/25/2008	$2.47	Materials	-47%
EDP Renováveis	EDPR.PL	Portugal	6/2/2008	$2.44	Energy	-37%
New World Resources	NWR.LN	United Kingdom	5/2/2008	$2.17	Energy	-80%
Turk Telekom	TTKOM.TI	Turkey	5/9/2008	$1.91	Communications	-24%
Zain	ZAINKSA.AB	Saudi Arabia	3/21/2008	$1.87	Communications	6%

Source: Renaissance Capital's IPOhome.com

*Based on offer price to 12/31 closing prices

†Dual listing on the Hong Kong & Shanghai exchanges.



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Almost 50% of new issues fell on their first day of trading and aftermarket performance was generally poor

Because of the poor performance by global stock markets and investor aversion to higher-risk equities, IPO returns were generally poor. 80% of global IPOs ended the year below their offer price, as the ones that did not fall in initial trading were eventually dragged down by the September/October market dropoff. The average return from offer price to year-end for a new issue was -35%**,** and while this figure was in the same ballpark as the performances of most of the world's major equity indices, investors demand absolute returns when investing in recent IPOs and have low tolerance for stocks that fall below their offer prices. Disappointing returns were a large factor in the IPO market's virtual disappearance in the second half of the year.

US volume fell sharply as traditional drivers vanished

Number of deals fell 84% and proceeds were cut in half despite Visa's record offering

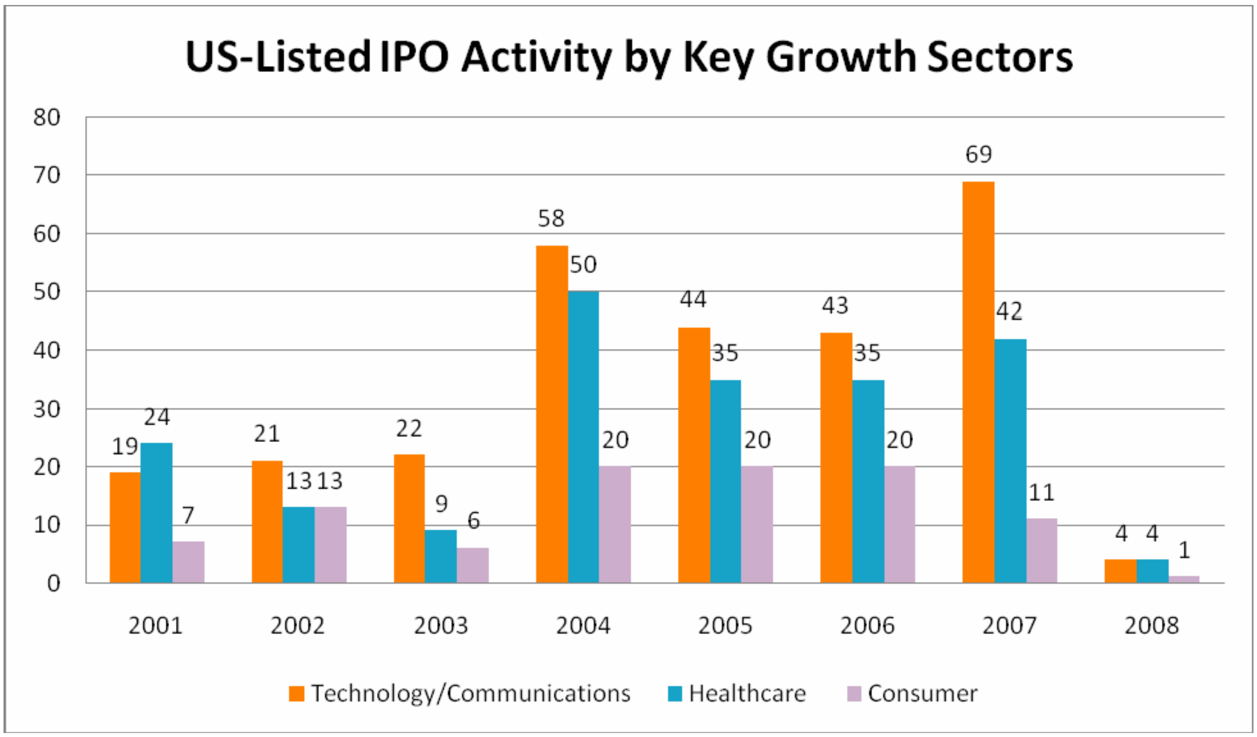
With only 43 new issues raising $50 million or more, 2008 was the slowest year for US IPOs since 1978. Although the new issues market began to show cracks in early 2008, plummeting valuations and spiking volatility caused the market to all but completely shut down from August to December. Proceeds for the year came in at $28 billion, more than half of which was made up of Visa's $18 billion offering. Excluding Visa, proceeds would have plunged 83% to $10 billion, the lowest tally since 1990, unadjusted for inflation. The low demand for IPOs was also evidenced by the 101 companies that filed to withdraw proposed offerings with the SEC, almost double the 51 that did so in 2007.

Summary IPO Data - US IPOs	2003	2004	2005	2006	2007	2008
No. of Deals	70	217	214	221	272	43
Total Proceeds (billions)	$15.4	$43.0	$35.6	$44.9	$59.7	$28.0
Average Deal Size (millions)	$220	$198	$166	$203	$219	$650

Source: Renaissance Capital's IPOhome.com
Includes 1, 21, 24, 58 and 12 SPACs in 2004, 2005, 2006, 2007 and 2008, respectively.

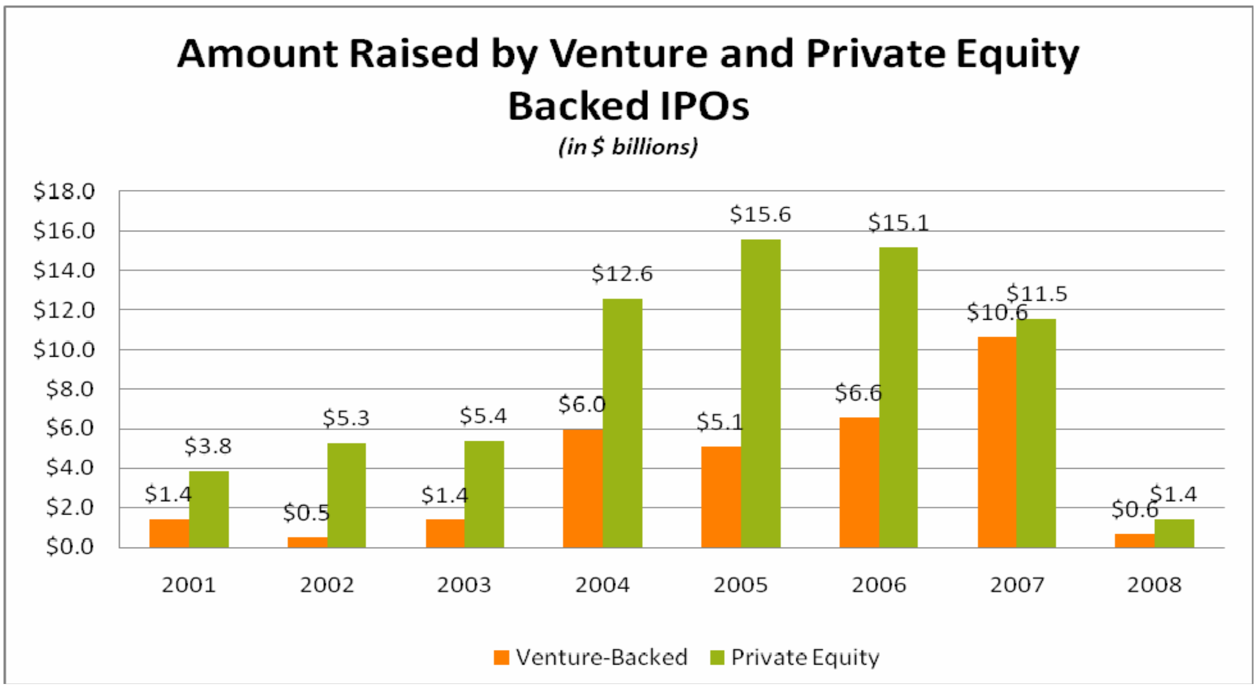
Traditional drivers of the IPO market, tech, healthcare and consumer, disappeared

Technology, healthcare and consumer companies, historically the lifeblood of the new issues market, saw activity substantially decline as investors heavily discounted future growth of risky companies. On a combined basis, these three sectors produced only nine IPOs and raised a modest $767 million, both down over 90% from 2007. Those that did succeed in going public tended to have higher-visibility business models or exposure to defensive areas such as education and health services; even so, eight of those nine companies were forced to price their offerings below the midpoint of their originally-proposed price ranges.



Venture capital, private equity and SPACs also saw large drops in activity

With these growth sectors drying up, venture-backed issuance came to a halt with just seven IPOs completed, down from 94 in the prior year and well below the 2001-2007 average of 47 per year. The window also closed on private equity-backed deals in 2008 following record activity between 2004 and 2007. Without access to the cheap credit that drove huge transactions and fast turnarounds, the major engine of recent buyout activity quickly stalled. LBOs accounted for just five IPOs in 2008, down from 47 in 2007 and in excess of 60 per year from 2004 to 2006. SPACs, which gained momentum in 2006 and 2007, also saw activity fall dramatically with 12 deals raising $3.5 billion compared with 58 deals raising $10.7 billion in 2007.



Top 5 IPOs accounted for 71% of all proceeds, led by Visa's record $18 billion IPO

The saving grace of the 2008 IPO market was undeniably Visa, which raked in nearly $18 billion in proceeds, making it the largest US IPO on record. Visa's offering, which drew immense demand from both US and international investors, accounted for a whopping 64% of the year's aggregate proceeds. Major US water utility American Water Works was the only other US IPO to break the billion dollar threshold with its $1.3 billion offering. Rounding out the top three was fertilizer pure-play Intrepid Potash, which raised just shy of $1 billion.

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Largest IPOs

IPO Date	Company	Ticker	Business Description	Deal Size ($mil)	Industry	Return*
3/18/08	Visa	V	World's largest provider of credit and debit cards.	$17,864	Financial	19%
4/22/08	American Water Works	AWK	The largest investor-owned water utility in the US.	$1,247	Utilities	-3%
4/21/08	Intrepid Potash	IPI	The largest US-based producer of potash (potassium chloride).	$960	Materials	-35%
7/23/08	GT Solar International	SOLR	Provides manufacturing equipment and services to the solar energy industry.	$500	Energy	-82%
5/7/08	Colfax	CFX	A supplier of fluid handling products including pumps and specialty valves.	$338	Capital Goods	-42%

Source: Renaissance Capital's IPOhome.com

*Based on offer price to 12/31 closing prices. Excludes SPACs.

IPO returns faltered with more than 50% of all new issues trading down on day one

Performance of 2008 new issues in the US was abysmal by historical standards, although not surprising given the steep decline in equities. The average first day pop was a paltry 2%, down from the more than 10% average first day return investors became accustomed to in each of the last five years. A whopping 58% of all new issues traded down in their market debut, the worst first day showing in at least a decade and almost four times the IPO market's 10-year average.

Summary IPO Returns - US IPOs

	2003	2004	2005	2006	2007	2008
Total Return*	28%	34%	18%	26%	13%	-27%
First Day Return	13%	11%	10%	10%	11%	2%
Aftermarket Return*	28%	34%	18%	26%	13%	-29%
Renaissance IPO Index (IPOP Returns)	26%	33%	23%	18%	15%	-50%
% IPOs with **NEGATIVE** first day returns	17%	19%	21%	21%	25%	58%

Source: Renaissance Capital's IPOhome.com

*Based on offer price to 12/31 closing prices.

Bringing down proposed valuations did not help. The IPO market's deterioration accelerated in May, with 71% of all subsequent new issues trading lower in their market debut despite efforts by underwriters to adjust valuations. Aftermarket performance was equally poor, and only seven companies have managed to stay above their IPO prices as of Dec 31.

Best Performers

Most of the “winners” in 2008 share a common theme of operating businesses that are relatively insulated from an economic downturn. The best performing name on the list was online post-secondary education provider Grand Canyon, which was also the only IPO to price since the market meltdown accelerated in the latter half of 2008. While the deal had to drop its offer price significantly in order to motivate investors to take the initial plunge and the IPO went on to break its offer price on its first day of trading, strong aftermarket buying has since pushed the shares up more than 50%.

Best Performing IPOs

IPO Date	Company	Ticker	Business Description	Deal Size ($mil)	Industry	Return*
11/19/08	Grand Canyon Education	LOPE	Provides online degree programs in education, business and healthcare.	$126.0	Business Services	57%
3/18/08	CardioNet	BEAT	Provides real-time wireless monitoring devices to detect cardiac arrhythmias.	$81.0	Health Care	37%
3/18/08	Visa	V	World's largest provider of credit and debit cards.	$17,864	Financial	19%
4/24/08	Hatteras Financial	HTS	Mortgage REIT, managed by Atlantic Capital, that invests in agency securities.	$240.0	Financial	11%
5/14/08	American Capital Agency	AGNC	Newly formed REIT, backed by ACAS, that plans to invest in agency securities.	$200.0	Financial	7%

Source: Renaissance Capital's IPOhome.com
*Based on offer price to 12/31 closing prices.

Worst Performers

The list of negative IPO performances is substantially larger than in recent years. Excluding SPACs, over half of all IPOs in 2008 were off more than 35% from their IPO price and roughly one in six IPOs had lost more than 70% of its market value. Among the hardest hit were a highly leveraged dry bulk shipper that went belly up, a solar equipment provider that faced concerns over possible order cancellations, a debt-burdened paper producer confronted by softening end market demand, and a speculative med-tech company.

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Worst Performing IPOs

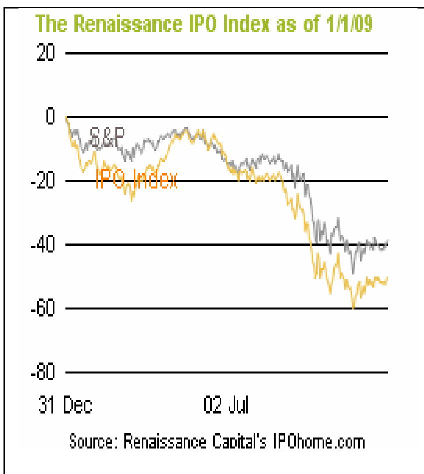
IPO Date	Company	Ticker	Business Description	Deal Size ($mil)	Industry	Return*
6/17/08	Britannia Bulk Holdings	BBLKF	The leading drybulk shipper in the Baltic region.	$125.0	Transportation	-100%
5/14/08	Verso Paper	VRS	A supplier of coated paper to catalog and magazine publishers.	$168.0	Materials	-91%
7/23/08	GT Solar International	SOLR	Provides manufacturing equipment and services to the solar energy industry.	$500.0	Energy	-82%
2/18/08	BioHeart	BHRT	A biotechnology company focused on using cells derived from a patient's body for treatment of heart damage.	$5.8	Health Care	-81%
8/3/08	China Mass Media Advertising	CMM	Provides independent television advertising services in China.	$190.0	Business Services	-79%

Source: Renaissance Capital's IPOhome.com

*Based on offer price to 12/31 closing prices.

The Renaissance IPO Index® underperformed other major indices

The poor aftermarket performance of the year's IPOs as well as contracting valuations and disappointing results from the previous two years' new issues caused the Renaissance IPO Index, which captures over 98% of the US IPO universe, to underperform other major equity indices in 2008. Because of the low issuance volume, only 24 newcomers were added to the Renaissance IPO Index in 2008. We will provide more detailed commentary in our annual report on the Index's 2008 performance in January.



Performance as of 1/1/09				
	RC IPO	S&P 500	RUS 2000	NASDAQ
Week	4.0%	4.4%	6.2%	3.4%
MTD	3.8%	0.8%	5.6%	2.7%
QTD	-25.6%	-22.5%	-26.5%	-24.3%
1-yr	-50.2%	-38.5%	-34.8%	-40.5%
3-yr	-32.6%	-27.6%	-25.8%	-28.5%

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Global Review by Region

Each of the other major global IPO markets followed similar patterns of declining performance and IPO activity.

Europe: Western Europe issuance fell, but Eastern Europe/emerging markets picked up some slack

Even more than in the United States, IPO activity in Western Europe fell dramatically in 2008. Germany, Italy, Spain and France, which together accounted for 48 deals in 2007, produced only two IPOs in 2008. As a whole, the region's IPO proceeds fell 88%. In the absence of activity in these markets, Eastern European exchanges picked up some of the slack; having accounted for just under 10% of regional proceeds in 2007, they represented 29% of money raised in 2008. In fact, of the ten largest deals, seven were emerging market plays, suggesting that as the financial crisis rocked the continent, IPO investors looked for economies that were still showing signs of significant growth. In addition, companies in Eastern Europe were very eager to raise equity capital, so they cut valuations dramatically.

As in other regions, energy was one of few sectors to see an increase in IPO activity, and proceeds raised by energy companies increased 265% to $6.2 billion. Energy IPOs also helped soften the decline in UK IPOs, as half of the 14 new issues on the LSE in 2008 were energy companies. The fall of commodity prices in the second half of the year, however, would stop the flow of these companies, and the gradual spread of the credit crisis into Eastern European nations such as Poland also took its toll on European IPOs; only two companies would go public in the second half of the year, down from 24 in the first.

Largest IPOs in Europe

Company	Ticker	Market Country	Offer Date	Deal Size ($bil)	Industry	Return*
EDP Renováveis	EDPR.PL	Portugal	6/2/2008	$2.44	Energy	-37%
New World Resources	NWR.LN	United Kingdom	5/2/2008	$2.17	Energy	-80%
Turk Telekom	TTKOM.TI	Turkey	5/9/2008	$1.91	Communications	-24%

Source: Renaissance Capital's IPOhome.com
*Based on offer price to 12/31 closing prices

Asia-Pacific: IPOs were driven by economic growth and increased stock market liquidity

In the beginning of the year, the shift in IPO activity toward emerging economies seen in Europe also helped Asia-Pacific and Middle East IPO production. Because of expanding GDPs, IPO activity in the Asia-Pacific markets was driven by energy and infrastructure-related companies, many of them privatizations. Improved market regulation and infrastructure, relaxed foreign capital investment restrictions and increased confidence in the sustainability of India and China's economic growth added institutional depth and increased liquidity to the Indian and Hong Kong Exchanges; however, China has more recently attempted to slow IPO activity on its exchanges because of weakened demand, which may be an additional headwind to 2009 deal flow.

Largest IPOs in Asia Pacific

Company	Ticker	Market Country	Offer Date	Deal Size ($bil)	Industry	Return*
China Railway Construction*	1186.HK	Hong Kong	3/6/2008	$5.46	Capital Goods	8%
Reliance Power	RPWR.IN	India	1/21/2008	$2.96	Energy	-73%
China South Locomotive*	1766.HK	Hong Kong	8/14/2008	$1.49	Transportation	62%

Source: Renaissance Capital's IPOhome.com
*Based on offer price to 12/31 closing prices

Africa/Middle East: Changing regulations, infrastructure spending and privatizations fueled Middle East IPOs

With oil prices skyrocketing to record levels in the first half of the year and boosting economic activity, the Middle East was flooded with an excess of liquidity and the region saw a 20% uptick in IPO proceeds to $8.8 billion in 1H08. Demand for IPOs was driven by sovereign wealth funds and the region's high-net worth individuals, who sought to diversify their holdings, while relaxed foreign ownership restrictions in many markets opened them up to international investors. Although activity slowed toward the end of the year, the second half saw the region's second largest deal in Saudi Arabian miner Ma'aden, which raised $2.5 billion, behind commercial bank Alinma ($2.8 billion). Overall, the region saw 18 new issues raise a total of $12.6 billion in 2008, down slightly from the 24 pricings and $16 billion in proceeds in 2007. With the region's heavy investments in infrastructure, trend toward privatizations, continued relaxation of foreign ownership laws and a possible change in regulation that would allow family-owned businesses to keep a majority stake upon going public, we believe that issuance will continue to thrive in the region.

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Largest IPOs in Africa and the Middle East						
Company	**Ticker**	**Market Country**	**Offer Date**	**Deal Size ($bil)**	**Industry**	**Return***
Alinma Bank	ALINMA.AB	Saudi Arabia	6/2/2008	$2.80	Financial	11%
Ma'aden	MAADEN.AB	Saudi Arabia	7/25/2008	$2.47	Materials	-47%
Zain	ZAINKSA.AB	Saudi Arabia	3/21/2008	$1.87	Communications	6%

Source: Renaissance Capital's IPOhome.com
*Based on offer price to 12/31 closing prices

Latin America: Poor returns and financial/consumer woes stifled Brazilian deal flow

The major exception to the trend that emerging economies gained IPO market share was Brazil, where, after a banner 2007, just two deals met our minimum proceeds threshold in 2008, raising a combined $4.5 billion, down 82%. In 2007, the torrid Brazilian IPO market had produced 58 deals over US$100 million, making it the fourth largest IPO market in terms of proceeds. While the nation's growth had driven the market index up 44% that year, 2007's new issues were on average trading slightly below their offer prices by year-end. With these poor returns, investor money steered clear of new issues in early 2008. Furthermore, much of 2007 activity had been driven by financial and consumer IPOs, and global trouble in financial firms, tightening credit markets and lower consumer confidence reduced demand for these two types of companies. With these factors working against the Brazilian IPO market, it is no surprise that the spigot ran dry in 2008.

Largest IPOs in Latin America						
Company	**Ticker**	**Market Country**	**Offer Date**	**Deal Size ($bil)**	**Industry**	**Return***
OGX Petroleo e Gas	OGXP3.BZ	Brazil	6/11/2008	$4.09	Energy	-53%
Bolsa Mexicana De Valores	BOLSA.MM	Mexico	6/12/2008	$0.39	Financial	-39%
Hypermarcas SA	HYPE3.BZ	Brazil	4/17/2008	$0.37	Consumer	-22%

Source: Renaissance Capital's IPOhome.com
*Based on offer price to 12/31 closing prices

Full pipeline should help activity recover as long as valuations are reasonable and returns improve

The pattern that played out in the global markets in 2008 was very similar to that of the early 1970s. Energy prices spiked, the US was at war, the stock market dropped, major corporations failed and a serious recession was unfolding. In our study, “When Will the IPO Market Return?” we observed a correlation between IPO returns and the number of IPOs. When IPO returns turned negative in the early 1970s, the IPO market dried up, just as it has done in the second half of 2008. If this pattern continues to hold, we expect to see low IPO volume in the near future, picking up only as returns become consistently positive. Companies will also have to become more realistic with their proposed valuations in order to successfully raise capital. As a case in point, one company, Grand Canyon, was only able to complete its US IPO in November by selling shares at a price 37% below the midpoint of its originally-proposed price range. Because the company was willing to accept demands for a lower price, the stock has ended up producing the best returns of any US IPO this year. A similar story was Gree, a Japanese company that went public in December and was up 63% by year-end.

There is a lot of pent-up demand by potential issuers to raise equity capital, both in the US, where there are over 100 operating companies in the pipeline, and in major non-US markets. If financial markets stabilize, we believe that many of these companies could test the IPO waters in 2009. While IPO investors will likely be very selective in the near future, staying away from high-risk companies and deals that allow insiders to cash out, companies that have solid fundamentals and are not seeking unrealistically high prices may well be able to perform successful offerings. The silver lining is that the need for discount valuations may allow IPO investors to yield powerful returns by investing in companies with strong prospects at attractive prices. Thus, even if issuance remains low in 2009, there is reason to believe that next year will lay the seeds for an active and profitable period for IPOs.