

Renaissance Capital's Global IPO Review: 3rd Quarter 2008

Global IPO activity slows to a crawl

Global IPO activity plummeted during the third quarter of 2008, further extending the trend from the first half of the year. Faced with unprecedented uncertainty stemming from the spiraling of the credit crisis and slowing global economic growth, investors turned increasingly skeptical of unseasoned stories typical of IPOs. Using a \$100 million proceeds floor and excluding special purpose acquisition companies (SPACs) and closed-end funds, the number of global IPOs in the third quarter fell -82% year-over-year to 20, while the amount of proceeds raised declined -89% to \$9.3 billion.

The lack of activity was not the only negative sign for the global IPO market as five of the period's IPOs were down more than -30% from their offer prices to quarter end. While some deals did post positive returns, the less than stellar performance of the group kept investors on the sidelines.

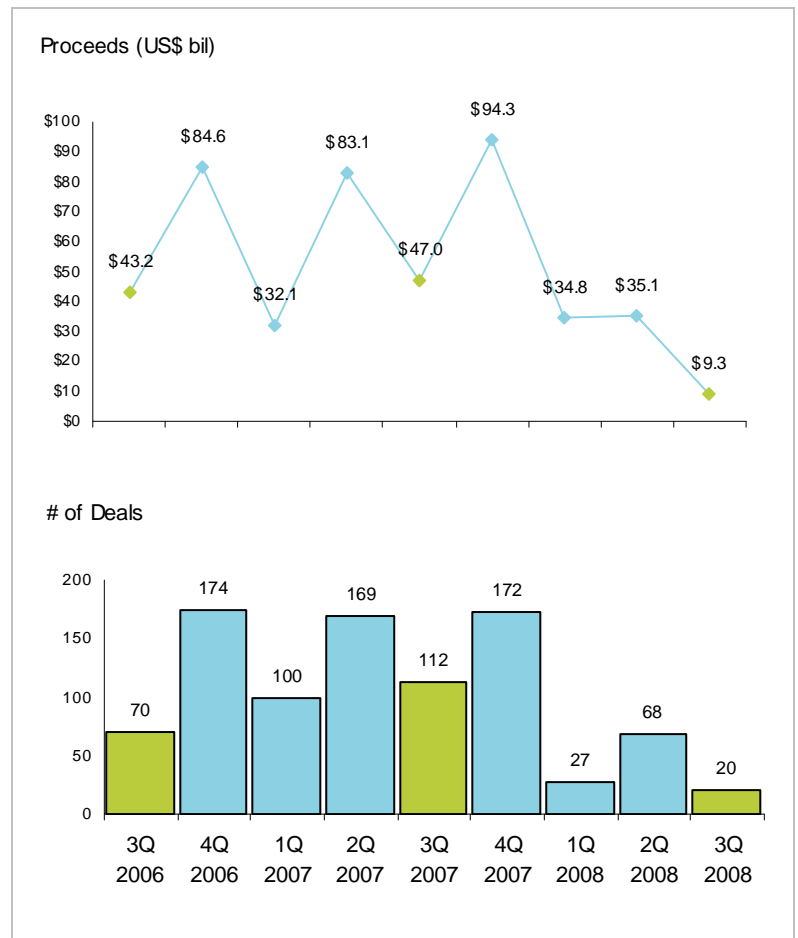
3Q08 Highlights

Global IPO Activity

- IPO activity slowed in every region except the Middle East
- Only one of the 10 largest IPOs was in the US and no large issues originated from Europe
- China South Locomotive's multi-billion dollar listing buoyed BRIC activity
- Saudi Arabia was the only country that increased its proceeds and had more than two listings

Industry Trends

- Asia's need for energy and materials drove several deals forward
- The capital goods and consumer sectors were hurt by concerns of a global slowdown



Of the ten largest deals during the quarter, four made public debuts in the Middle East, and another four did so in Asia Pacific. Three of the top five deals were energy firms and the top two deals were defensive plays related to gold and infrastructure.

Largest IPOs						
Company	Market Country	Offer Date	Deal Size (\$bil)	Industry	Return to 9/30/08	
Ma'aden	Saudi Arabia	7/25/2008	\$2.47	Materials	4.5%	
China South Locomotive	HK / Shanghai	8/6/2008	\$1.49	Transportation	13.5% / 60.6%	
PT Adaro Energy	Indonesia	7/2/2008	\$1.33	Energy	27.3%	
Bayan Resources	Indonesia	7/23/2008	\$0.53	Energy	-65.5%	
GT Solar International	United States	7/23/2008	\$0.50	Energy	-34.2%	
SJM Holdings Ltd.	Hong Kong	7/3/2008	\$0.49	Consumer	-46.4%	
Drake & Scull International	United Arab Emirates	7/21/2008	\$0.33	Technology	n/a	
Alliances Dev. Immobilier	Morocco	7/16/2008	\$0.27	Financial	20.1%	
Damas International Ltd.	United Arab Emirates	7/2/2008	\$0.27	Consumer	-1.0%	
Astra Industrial Group	Saudi Arabia	8/15/2008	\$0.25	Cap. Goods/Services	-22.4%	

Global IPO Activity

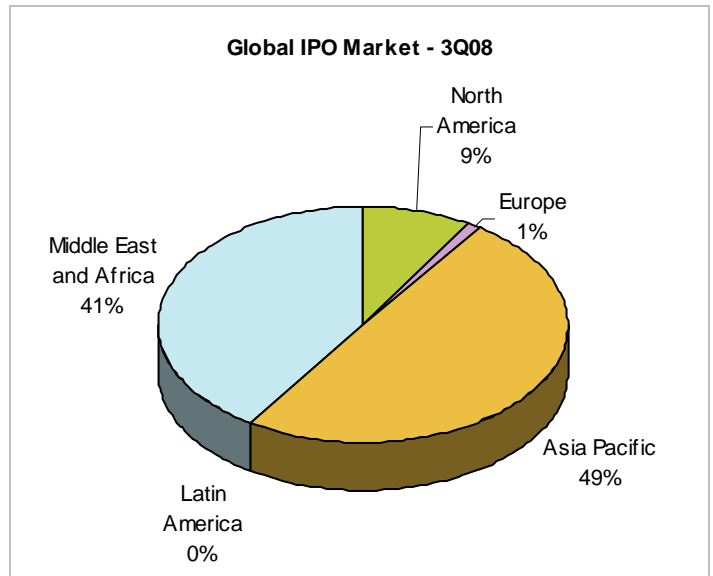
The dearth of IPO activity during the third quarter was not unique to any single country or region, rather, it was a characteristic of all of the world's markets. Saudi Arabia, helped by oil profits and a government focused on diversifying its economy, was the only country to buck the trend and increase its total proceeds.

IPO activity dries up in the US and Europe

Just three companies raised more than \$100 million in the US during the third quarter as the financial crisis gave investors another reason to reevaluate risk. None of the IPOs performed particularly well, with only energy device company Energy Recovery up from its offer price. The other two IPOs, solar equipment manufacturer GT Solar and web hosting provider Rackspace, both broke their IPO price on the first day of trading and were down -34% and -22%, respectively, through the end of the quarter.

3Q08 Global IPO Activity				
	United States	Europe	BRIC	Saudi Arabia
Number of IPOs	3	1	5	3
Proceeds (\$ mil)	\$806	\$107	\$2,338	\$2,909
<i>Excludes deals smaller than \$100 million, SPACs and closed-end funds.</i>				

IPO activity in Europe was at a standstill. US-based oil production company Resaca Exploitation's \$107 million London offering, the smallest deal during the quarter, was the only European IPO. This marks a substantial decline from the 31 deals that raised a combined \$10.2 billion during 3Q07.



A few large deals keep emerging markets afloat

Although all sectors saw dramatic declines in proceeds, the drops were less extraordinary for the energy and materials companies, which have been the most prevalent IPOs in emerging markets, because of their defensible secular growth stories. Even in the event of decelerating global growth, emerging economies will continue to fuel strong demand for energy and infrastructure construction. The listings of train and railway equipment maker China South Locomotive and Indonesian coal producers PT Adaro Energy and Bayan Resources, three of the four largest deals of the quarter, best illustrate this trend.

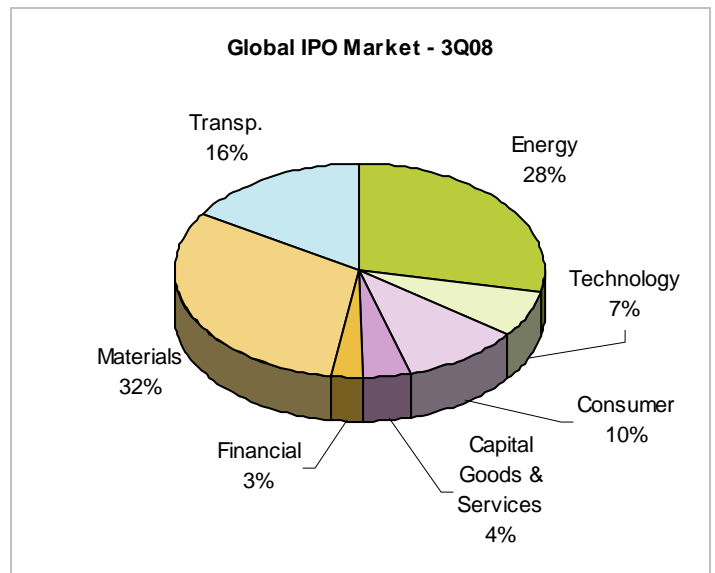
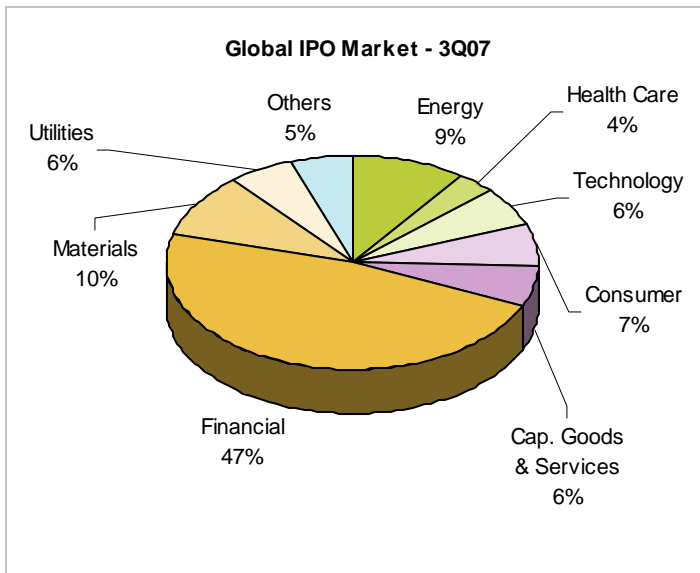
While the emerging markets hosted nine of the ten largest deals of the quarter, year-over-year IPO activity still declined sharply. Since peaking in 4Q07 with \$33.1 billion raised, IPO activity fell off to just \$2.3 billion in the BRIC (including Hong Kong) countries, marking the slowest quarter since 3Q05. With the major BRIC indices down -39% YTD, the steep drop off in activity was not surprising.

Saudi Arabia continues to take share

Saudi Arabia was the only country with more than two IPOs to see a year-over-year increase in proceeds. Soaring gold prices helped gold miner Ma'aden complete a \$2.5 billion offering, the largest of the quarter. Excluding Visa, Saudi Arabia's \$9.5 billion in year-to-date proceeds trump the \$6.0 billion raised in the US.

Industry Trends

IPO activity in every sector, even in healthcare and utilities, which are typically viewed as defensive industries, declined substantially. The mix of proceeds was skewed toward the transportation, energy and materials sectors because of a few large offerings.



Outlook

Unprecedented turmoil in the worldwide markets over the past few weeks caused several firms to table public offering plans. Last week, US genetics instrument maker Fluidigm postponed its deal after investors balked at the valuation. Similarly, lube oil recycler Safety-Kleen pulled its offering citing market conditions. Schott Solar shelved its \$740 million deal, which would have been one of Germany's largest offerings this year, while Anil Ambani also delayed his next public issue - the \$1.5 billion IPO of Indian telecom Reliance Infratel.

Nevertheless, a few large deals are set to brave the tough IPO market in the coming weeks. Chinese developer of underground shopping centers Renhe Commercial plans to price its \$700 million deal the week of October 6, while

German railway operator Deutsche Bahn expects to raise \$7.4 billion at the end of October. Entrepreneur Clive Cowdery also plans to tap the London markets in November for \$1.8 billion with his newest venture Resolution, a buyout firm that will focus on the financial services industry.

While the recent re-capitalization of market bellwethers GE and Goldman Sachs may shore up confidence in the equity markets in the coming months, we do not foresee a full recovery of the IPO market until returns improve significantly. This will require that underwriters price deals conservatively and that management teams lower internal valuation expectations. The companies on deck in the global IPO pipeline will have the opportunity to rejuvenate the IPO market, but without positive returns, investor interest in IPOs will remain muted.