

Renaissance Capital's 2007 Annual IPO Review

The Strong IPO Market That Nobody's Talking About

During 2007, all of the talk about IPOs was that London and Hong Kong were stealing the New York IPO market's thunder. But, with the largest number of IPOs and highest dollar volume since 2000, the 2007 U.S. IPO market performed well against the backdrop of the subprime and credit market crises. Driving the IPO market were fast growing Chinese companies in search of US capital and hot U.S. technology companies. Although IPOs were mostly immune from the problems of foreclosures, bad loans and deteriorating credits, the four largest issuers this year were financial companies, two of them money managers whose investments were potentially in these now contaminated realms of the credit markets. Technology continued its rebound, although performance was bifurcated, with sought after on-demand and virtualization software companies soaring and smaller names tanking.

Not all of the IPO action occurred in the US, however. The London Stock Exchange continued to attract European issuers, although many of its IPOs were smaller. But the LSE didn't produce any global marquee names this year. Instead, the headline grabbing issuers were Chinese companies eschewing the New York exchanges for Shanghai and Hong Kong.

The 2007 was notable for the following:

- Highest volume and proceeds raised in seven years
- 2007 IPO first day pop and aftermarket returns were good but below 2006
- The Renaissance IPO Index[®] significantly outperformed the major indices
- Largest issuers were financials, which had disappointing debuts
- The majority of top performers were Chinese IPOs
- Stop the presses! Worst performers weren't mostly biotech
- Tech IPOs were the largest component of the calendar, followed by healthcare
- Establishment of Hong Kong and Shanghai as hubs for hot IPOs
- Non-US exchanges Woo IPOs
- International activity, lead by China, continued to be strong
- Tremendous demand for small, high growth companies
- More Profits on the Come as Tech Deals Dominated
- Our predictions for 2008 are offered

Highest Volume of IPOs and Proceeds in Seven Years

Deal volume was up 18% and proceeds raised increased 26% over 2006. The average market capitalization of IPOs rose as well, due to a continuing number of megadeals as well as investor preference for companies with credible track records.

Exhibit 1: IPO deal volume

Summary IPO Data 2003-2007

	1999	2000	2001	2002	2003	2004	2005	2006	2007
No. of Deals	486	406	83	70	68	216	194	198	234
Total Proceeds (billions)	\$93	\$97	\$41	\$24	\$15	\$43	\$34	\$43	\$54
Average Deal Size (millions)	\$191	\$240	\$491	\$338	\$224	\$198	\$175	\$217	\$229

Source: Renaissance Capital's IPOhome.com

* Based on year to date as of 12/31/2007.

2007 IPO First Day Pop and Aftermarket Performance were Good but Below 2006

While results for 2007 IPOs were solid, average total return for IPOs was below the higher returns posted in 2003 to 2006. This reflects the two major disruptions during the year: first the dip in Asian stocks in the spring and then the fallout from the subprime crisis in the summer and early fall. During these downturns, investors were very quick to bail out of the portions of their portfolios in which they had the least experience and confidence – the recently acquired IPOs. This may explain why the follow on performance in the aftermarket was less than in previous years.

Exhibit 2: IPO Returns

Average Annual IPO Returns

	2003	2004	2005	2006	2007
Total Return	28%	34%	18%	26%	13%
First Day Pop	13%	11%	11%	11%	11%
Aftermarket Return	14%	21%	6%	13%	0%

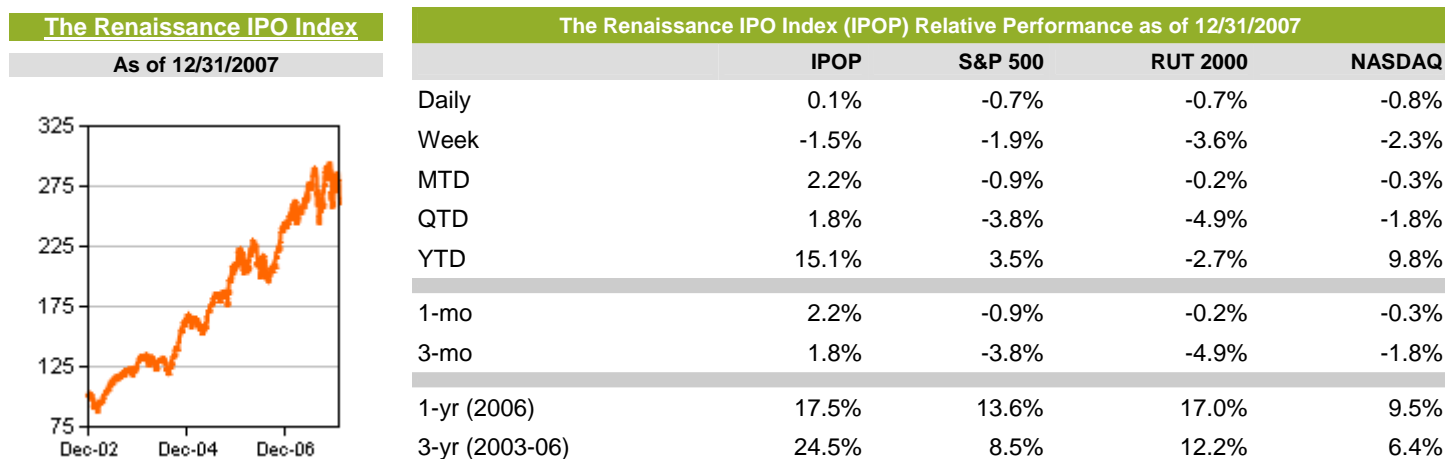
Source: Renaissance Capital's IPOhome.com

* Based on offer price to 12/31/07 closing prices.

The Renaissance IPO Index[®] Significantly Outperformed the Major Indices

As for the performance of recent IPOs, the Renaissance IPO Index[®] was up over 15% for the year, outperforming all other major indexes. The year 2007 marked a volatile year for the Renaissance IPO Index[®]. Ongoing credit issues in the financial markets drove the Index's poor performance in mid-August and late November, but were continually offset by hopes of possible interest rate cuts by the Fed, which renewed investor interest in higher growth smaller cap stocks.

Exhibit 3: Renaissance IPO Index performance



Source: Renaissance Capital's IPOhome.com

Largest Issuers were Financial Firms, Which Had Disappointing Debuts

Although there were only six deals with proceeds that exceeded \$1 billion, compared to seven in 2006, 2007's largest deal, Blackstone, with proceeds of \$4.1 billion, exceeded 2006's MasterCard at \$2.4 billion. Performance for all of the top five money-raisers was disappointing, with only Interactive Brokers producing a positive return.

The trio of big name alternative asset managers, Fortress Investment Group (which raised \$634 million), Blackstone Group, and Och-Ziff Capital Management, enjoyed much pre-pricing PR and demand was strong with all three pricing their respective offerings above the target midpoints. However, fears about the credit quality of the underlying portfolios quickly torpedoed returns.

Exhibit 4: The biggest IPOs of 2007 Annual

IPO Date	Company	Business Description	IPO Price Shares	Proceeds Raised	Return*
6/21/07	Blackstone Group L.P.	Alternative asset manager and provider of financial advisory services.	\$31.00 133 million	\$4.1 billion	-29%
7/18/07	MF Global Ltd.	Leading broker of exchange-listed futures and options in the world.	\$30.00 97 million	\$2.9 billion	5%
5/3/07	Interactive Brokers	An electronic market maker that trades securities, futures and forex instruments.	\$30.01 40 million	\$1.2 billion	8%
11/13/07	Och-Ziff Capital Management	A global hedge fund with over \$30 billion in assets under management.	\$32.00 36 million	\$1.2 billion	-18%
4/18/07	MetroPCS Communications	A provider of unlimited, flat-rate wireless services in select US metropolitan markets.	\$23.00 50 million	\$1.2 billion	-15%

Source: Renaissance Capital's IPOhome.com

* Based on offer price to 12/31/07 closing prices

The Majority of Top Performers were Chinese IPOs

Two of the five top performers were China-based IPOs and half of the 25 top performers were China-based. There were 34 Chinese IPOs in 2007, nearly four times as many in 2006. Eight of them gained over 100% from their offer prices. The surge in China IPOs had a lot to do with the old Wall Street aphorism: "When the ducks are quacking, feed them." This year's batch was well diversified and represented the emerging solar energy industry, real estate, biotech, advertising and commercial services.

Exhibit 5: The best performing IPOs in the 2007 Annual

IPO Date	Company	Business Description	Sector	Return*
2/6/07	JA Solar Holdings	A Chinese manufacturer of high-performance solar cells.	Energy	365%
8/9/07	MercadoLibre	Operates the largest online trading platform in Latin America.	Technology	310%
6/7/07	Yingli Green Energy	Vertically integrated photovoltaic product manufacturer in China.	Energy	252%
8/13/07	VMware	Leading provider of virtualization software to over 20,000 organizations.	Technology	193%
3/15/07	FCStone Group	Provides commodity risk management consulting and execution services.	Financial	188%

Source: Renaissance Capital's IPOhome.com

* Based on offer price to 12/31/07 closing prices

Stop the Presses! Worst Performers Weren't Mostly Biotechs

For the first year in a long time, only one biotech made the bottom five. Only one made the bottom ten. As might be expected in a year that suffered a major credit calamity, the bulk of losing IPOs were in real estate, finance and telecommunications. Losing IPOs in the headlines were Xinhua Financial, which is fighting shareholder lawsuits, and Clearwire, the controversial Craig McCaw wireless provider.

Exhibit 6: The worst performing IPOs in the 2007 Annual

IPO Date	Company	Business Description	Sector	Return*
4/19/07	Superior Offshore Int'l	A provider of subsea construction and diving services to the oil and gas industry.	Energy	-67%
1/30/07	HFF, Inc.	A provider of capital markets services to the commercial real estate industry.	Financial	-65%
1/24/07	Meruelo Maddux Properties	A California real estate developer with a focus on Los Angeles.	Financial	-61%
2/8/07	VeriChip Corporation	Develops and sells radio frequency identification systems, primarily for use in the healthcare industry.	Health Care	-60%
3/14/07	BigBand Networks	Provides advanced video processing platforms for cable and telecom networks.	Technology	-60%

Source: Renaissance Capital's IPOhome.com (See table: [Worst Performers](#))

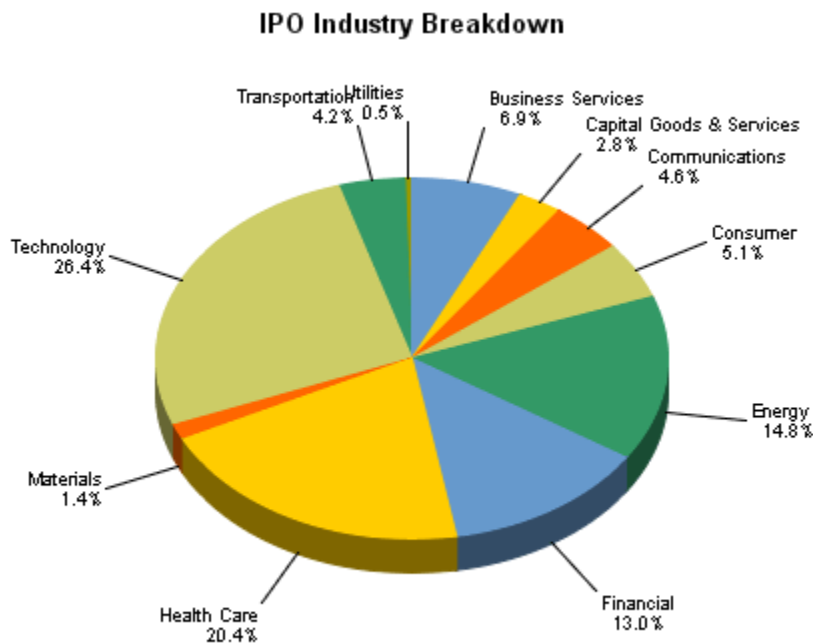
* Based on offer price to 12/31/07 closing prices

Tech IPOs were the Largest Component of 2007 Deal Flow, Followed by Healthcare

Although still a far cry from the late 90's tech parade, technology IPOs topped 20% of deal flow for the first time since 2004 and continued a rising trend that we first noted in late 2006. With 52 technology IPOs, 2007 was also the most active technology calendar in terms of total deal volume since 2000's outstretched tally of 234 deals. With moderating economic expansion in the US and the large, established technology companies finding it harder to move the needle for growth, investors sought out young technology leaders benefiting from waves of spending in specific sectors. Several exciting high-growth technology outfits made their debuts, including a hugely successful offering from virtualization leader VMware, a spin-off from EMC. Raising over \$1 billion and rising 76% in its first day of trading, VMware was the largest tech IPO since Google. Currently valued at over \$35 billion, VMware is now the fourth most valuable software company in the world behind Microsoft, Oracle and SAP.

Healthcare once again was the second largest sector, due to the continued number of biotechs. Energy was also an active sector, driven by numerous yield-providing LPs marketed to retail investors.

Exhibit 7: IPO Industry Breakdown for 2007



Source: Renaissance Capital's www.IPOhome.com

Establishment of Hong Kong and Shanghai as IPO Hubs

Chinese companies turned to the Hong Kong and Shanghai stock exchanges. The most anticipated and highly-sought after international IPO of the year, Alibaba.com, a business-to-business online marketplace, floated its shares in Hong Kong in early November and saw its share price rise 193% on the first day of trading. The listing decision by Alibaba and PRC-controlled China Railway may be points of national pride as well as a policy decision to boost the Shanghai exchange.

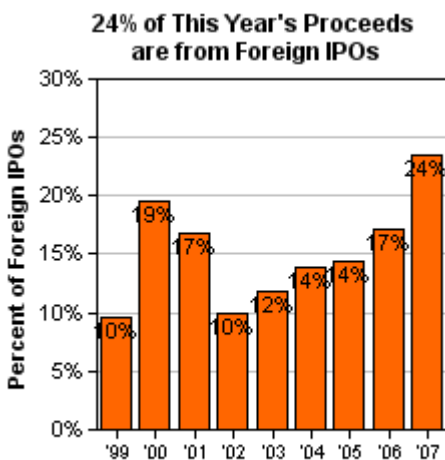
Non-US Exchanges Continue to Woo IPOs

Although the US attracted the majority of Chinese listings, smaller Chinese companies tested the European markets with a few offerings. Asian Bamboo AG, which operates bamboo plantations, listed in Frankfurt, automotive technology firm Lionax International listed in Paris and BlueStar, a digital video surveillance provider listed on the London Stock Exchange's AIM market. However, it is questionable whether any of these would have passed US investor scrutiny.

Elsewhere in the world, IPO activity heated up on India's National Stock Exchange (NSE) and Brazil's Bovespa. Real estate developers in India, along with manufacturing and construction companies, led the wave of over 85 IPOs in 2007. In Brazil, IPO activity was highlighted by several Brazilian banks and real estate companies, as well as the public debut of Bovespa Holding, which controls the exchange and the Brazilian Clearing and Depository Corporation.

In Europe, London's issuers on AIM had raised \$7.1 billion by early December, down 45% from 2006, according to the Wall Street Journal. Continuing the trend from previous years, most of these new issues were quite small in size, with many of the companies raising less than the equivalent of \$20 million.

Exhibit 8: Foreign IPO Issuance



Source: Renaissance Capital's IPOhome.com

International Activity, Lead by China, Continued to be Strong

Despite the hand wringing over the loss of market share to London and Hong Kong, foreign issuance was up 62% in 2007 to 55 IPOs, up from 34 in 2006. These IPOs accounted for 24% of IPO proceeds, the highest since 2003. In the U.S. deal flow originated mostly from China and South America. Foreign IPOs included a diverse mix of industries. Important China IPOs in this regard were national drug store retailer, China Nepstar, real estate broker E-House, and IT software solutions provider Longtop Financial. Latin America produced online e-commerce portal MecardoLibre.

Tremendous demand for small, high-growth companies

In addition to the usual mix of fast-growing technology IPOs, this year also saw a handful of successful debuts by small, high-growth companies in the consumer and business services industries. Two retailers, yoga apparel maker Lululemon Athletica and destination beauty products chain Ulta yielded eye-popping first day gains, with Lulu returning 56% and Ulta returning 66%. The aftermarket performance of these stocks has starkly diverged, however, with Lulu's 20% plus same-store sales growth, high margins and large U.S. market opportunity drawing bullish investors to bid up the price. Meanwhile, concerns about a competitive holiday season leading to weaker-than-expected fiscal 2007 guidance from Ulta has eroded support for the stock, which has relinquished much of its initial returns.

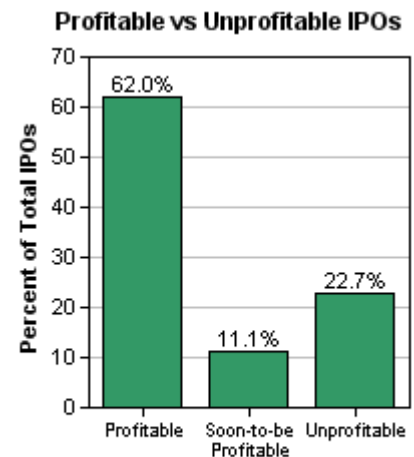
Joining the bricks and mortar retailers was e-commerce trading platform MercadoLibre, a.k.a the Latin American eBay. The auction site saw its stock bid up 58% on the first day as investors sought an early stake in this play on increasing Internet penetration at our southern neighbors.

Finally, rapidly expanding online postsecondary education provider American Public met with a buying frenzy in its debut, with investors enthusiastic over its strong competitive position in the military and public service sector sending the stock up 80% on the open.

More Profits on the Come as Tech Deals Dominated

2007 saw a rise in the number of unprofitable IPOs, as investors were attracted to fast-growing technology companies, particularly on-demand software and enterprise storage and networking vendors. Although only 61% of the year's IPOs were profitable when they went public, which is below the 70% average in the five preceding years, one-third of the unprofitable IPOs were expected to be profitable within the next two quarters. Thus, while investors were willing to overlook a lack of profits to date, they wanted to see companies that had demonstrated the scalability of their business models and were close to booking profits. We took the 18 Special Purpose Acquisition Companies (SPACs) out of the calculation.

Exhibit 9: Profitable IPOs in 2007



Source: Renaissance Capital, Greenwich, CT
(www.IPOhome.com)

Our 2008 Predictions

Before we venture our predictions for 2008, an assessment of 2007 calls is in order.

First, we thought alternative energy had run its course. Wrong. And we also didn't predict Al Gore's Nobel Peace Prize. Chinese solar energy IPOs continued to debut and several companies involved in reducing energy use went public, including Comverge and EnerNOC.

We were right on in expecting strong deal flow from emerging markets, but didn't anticipate the move to non-US exchanges.

We were also correct in our prediction that the growth market has returned. Investors jumped on fast growing IPOs, no matter what the sector.

Looking ahead to 2008, we predict:

- Continued strong market for growth IPOs, compared to the depressed value IPOs, mostly financial and private equity
- Continued issuance from China in advance of the Summer Olympics
- Technology and energy should continue to be the strongest sectors. The energy issuers are heavily weighted toward traditional exploration, development and services; there are only a handful of alternative energy companies in the pipeline.
- Despite the mixed performance of biotechs in 2007, a number of companies remain hopeful that they can raise public capital
- With the exception of VISA and KKR, there are no high profile financial issuers poised for IPOs. In fact, the number of potential financial IPOs has shrunk to 3% of the pipeline.
- With 18 SPACs in 2007, another 32 have queued up for 2008.