January 4, 2016

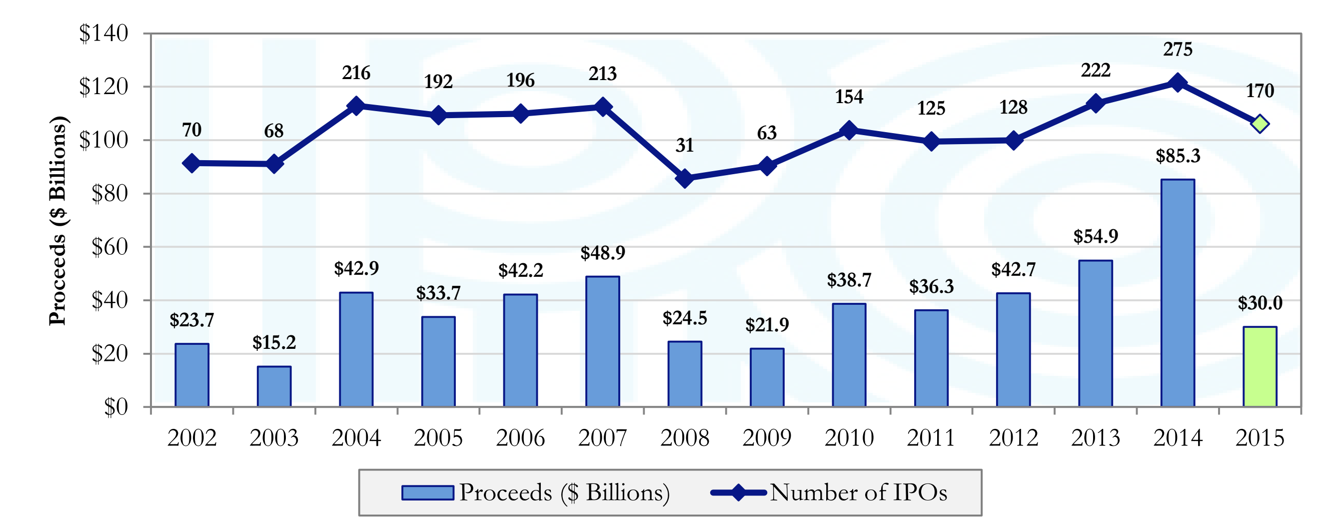
2015 US IPO Market Disappoints

Coming off of two banner years, the 2015 IPO market was a disappointment with 170 IPOs raising only $30 billion, a six-year low. There is no single explanation for the decline in 2015 activity; rather, it was driven by a number of factors, including uncertainties about Federal Reserve and European monetary policies, concerns over the Chinese economy, poor IPO performance, declining energy prices and increases in M&A and private market transactions. For the first eight months of the year, the IPO market was on target to reach over 200 IPOs with solid returns, but went into a tailspin in August and September that wiped out positive performance, drove abnormally high IPO discounts and brought issuance to a near halt by year-end. Health care was the single sector that held up, comprising a record 46% of IPOs as biotech deal flow remained strong. Technology IPOs were notable in their absence, which was a function of plentiful pre-IPO funding and a large unresolved disparity between public and private market valuations. While there were some bright spots, such as Shake Shack, GoDaddy and Fitbit, there were far more disappointments, with 57% of all IPOs trading below issue and the average IPO down -2% at year-end. Looking ahead, the IPO pipeline is full, but the pace of IPO activity in 2016 depends on adjusting the expectations of investors and issuers.

Key Takeaways:

- Annual Proceeds Hits a Six-Year Low of $30 Billion, Hurt by Post-August Retreat
- Health Care IPOs Reach a Record 46% of Issuers Due to Biotechs; Tech Deal Count Drops 56%
- The Number of Large Issuers Falls Significantly as LBOs Are Largely Absent in the 4Q
- IPO Performance Nosedives; 57% of Deals End Below Issue with Tech and Health Care Notably Weak
- PE Issuance Falls 45%; VC Is Down 33%
- Will the Rough 4Q for Equities Mean a Poor 2016 IPO Market?

US IPO Activity



Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Annual Proceeds Hits a Six-Year Low of $30 Billion

Following two strong years, which both set post-tech-bubble records for issuance and proceeds, 2015 IPO activity declined dramatically. US IPOs raised $30 billion in 2015, the lowest tally since $22 billion in 2009. Even without Alibaba's $22 billion offering last year, 2015's dollar volume still would have declined 53% due to lower IPO issuance across every sector, particularly tech and energy, as well as a steep decline in PE-backed LBOs and other large offerings. The sustained level of small biotech offerings supported high venture capital activity but also drove the median deal size down to $94 million, the lowest nominal level since 2004 when the median deal size was $94 million. There were only 111 non-biotech IPOs, the lowest level since 2009. Three years of more-than-20% IPO returns came to a grinding halt as the average offering traded -2% below its offer price, below benchmarks.

Key US IPO Statistics

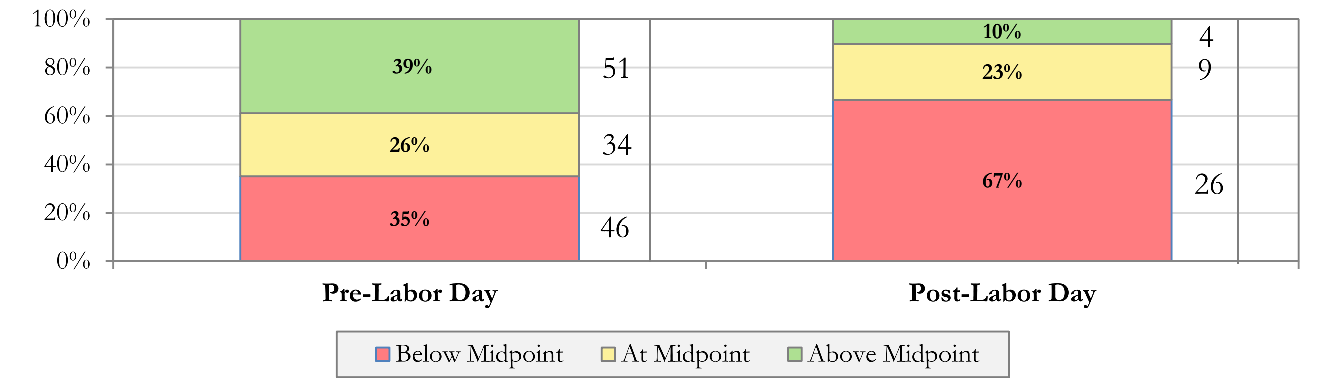
	2011	2012	2013	2014	2015
Number of Deals	125	128	222	275	170
Proceeds Raised (US$)	$36.3B	$42.7B	$54.9B	$85.3B	$30.0B
Median Deal Size (US$)	$160.2mm	$124.0mm	$126.3mm	$100.0mm	$93.8mm
PE-Backed Deals	35	45	68	71	39
PE-Backed Proceeds (US$)	$20.4B	$10.3B	$24.5B	$25.0B	$11.3B
VC-Backed Deals	51	46	82	126	85
VC-Backed Proceeds (US$)	$7.9B	$20.7B	$9.7B	$35.3B	$8.9B
Performance					
Average US IPO Return*	-9.8%	20.5%	40.8%	21.0%	-2.1%
Avg. First-Day Return	10.5%	14.1%	17.3%	13.5%	14.3%
Avg. Aftermarket Return**	-17.5%	5.6%	20.3%	7.2%	-13.5%
Renaissance IPO Index	-16.6%	17.6%	54.3%	7.2%	-8.4%
S&P 500	0.0%	13.4%	29.6%	11.4%	-0.7%
Russell 3000	-0.9%	14.0%	30.9%	10.4%	-1.5%

Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.
*Calculated as average return from offer price to 12/31 close. **Calculated as average return from first-day close to 12/31 close.

Solid First Eight Months Are Erased by Post-August Retreat

The later in 2015 that a company priced, the more pricing pressure it faced. The 131 pre-Labor Day deals were more likely to price above the midpoint than below it. The S&P 500 traded off 11% near the end of August, and when the IPO market resumed after Labor Day, 67% of the subsequent 39 offerings priced below the midpoint and 56% priced below the range. Broader price concessions in the final four months, however, gave way to positive returns.

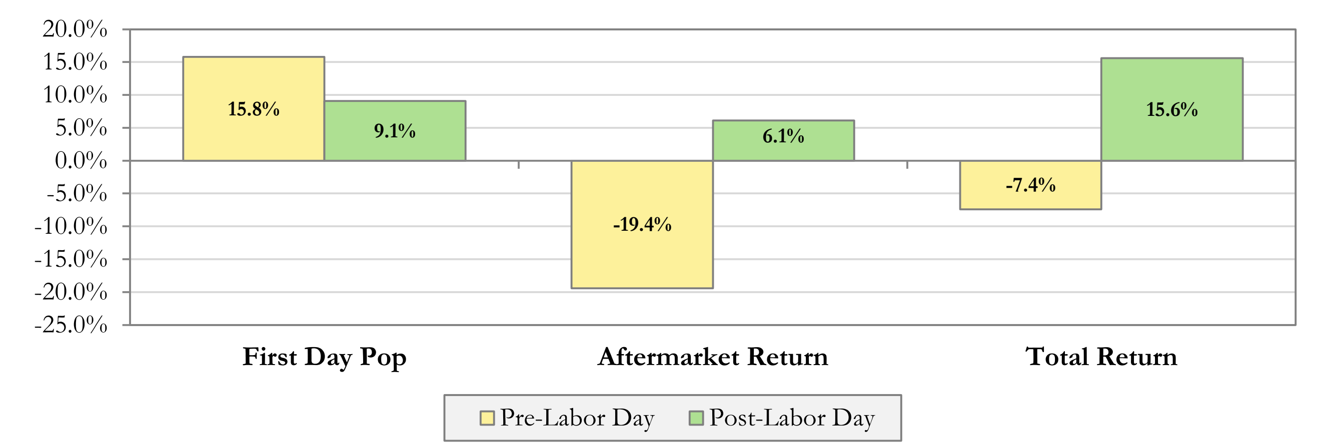
Investors Seek Broader Price Concessions Post-Labor Day…



Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Deals completed before Labor Day ended the year an average of -7% below their offer price; IPOs that priced after Labor Day averaged a gain of 16%. Comparing IPOs that priced below the midpoint, the post-Labor Day group outperformed by 38 percentage points (+20% vs. -18%). First-day pops were dampened after Labor Day (9% vs. 16%), contributing to the far superior aftermarket performance for the post-Labor Day group.

…Leading to Improved Total/Aftermarket Returns



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Health Care IPOs Reach a Record 46% of Issuers Due to Biotechs; Tech Drops 56%

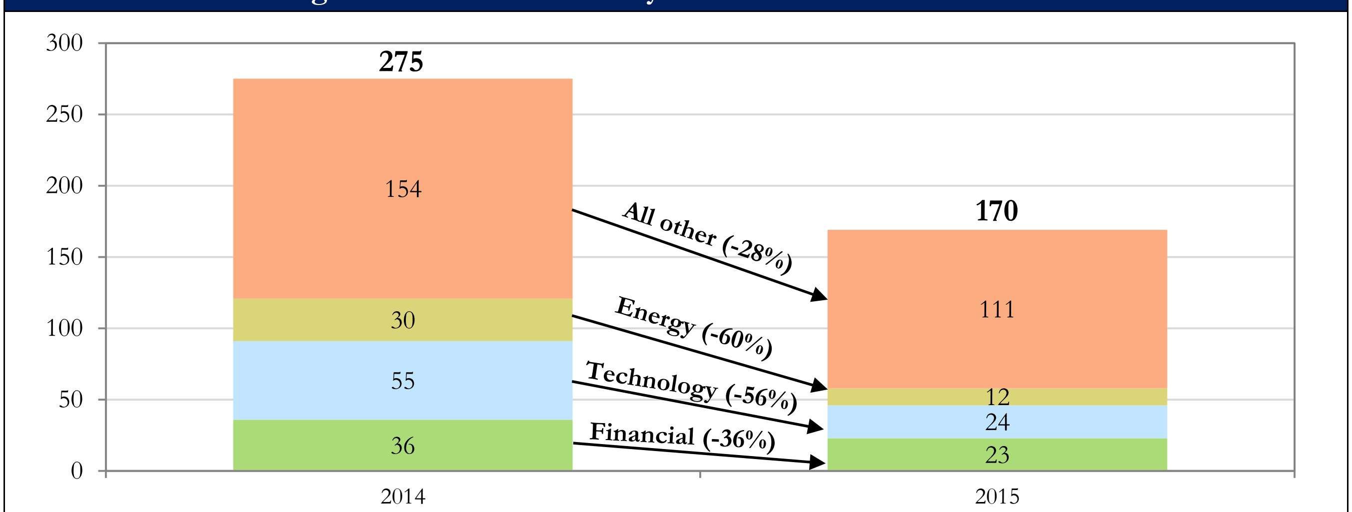
The health care sector took an even larger share of the IPO market at a record 46% of deal flow, up from 37% in 2014, driven by a third straight year of heightened biotech activity. Even so, every sector saw a decline in IPO count from last year, especially energy (-60%) and technology (-56%). Only consumer IPOs raised more proceeds than 2014 thanks to large offerings from wearables maker Fitbit, retailer Party City and natural pet food brand Blue Buffalo. With 24 offerings, tech had fewer IPOs in 2015 than in any year since 2009. Many tech companies have held off from going public due to the availability of private funding and valuation disconnects between private and public investors. Financial REITs (7) and energy MLPs (9) had a solid showing in the first half of the year, but disappeared when yield stocks were hammered. Not a single energy IPO was completed after August 4.

Proceeds Ranked by Sector (US$ Billion)

	2011			2012			2013			2014			2015		
Sector	#	$	% of IPOs	#	$	% of IPOs	#	$	% of IPOs	#	$	% of IPOs	#	$	% of IPOs
Health Care	15	$5.1	12%	12	$0.8	9%	54	$8.6	24%	102	$9.2	37%	78	$6.7	46%
Energy	28	$8.7	22%	25	$7.3	20%	22	$10.7	10%	30	$12.7	11%	12	$5.5	7%
Financial	13	$3.8	10%	21	$8.3	16%	45	$10.2	20%	36	$18.6	13%	23	$5.1	14%
Technology	44	$9.7	35%	38	$20.4	30%	45	$7.9	20%	55	$32.3	20%	24	$4.3	14%
Consumer	12	$4.1	10%	15	$2.3	12%	19	$8.3	9%	16	$3.0	6%	15	$3.4	9%
Capital Goods	2	$0.6	2%	5	$1.4	4%	14	$3.7	6%	10	$2.5	4%	7	$1.8	4%
Business Services	1	$0.2	1%	3	$0.2	2%	3	$1.4	1%	8	$2.9	3%	3	$1.3	2%
Materials	3	$0.8	2%	7	$1.7	5%	9	$1.5	4%	7	$2.0	3%	4	$1.1	2%
Transportation	5	$1.6	4%	2	$0.4	2%	7	$1.8	3%	8	$1.6	3%	3	$0.7	2%
Communications	1	$1.6	1%	0	$0.0	0%	4	$0.8	2%	2	$0.5	1%	1	$0.1	1%
Utilities	1	$0.1	1%	0	$0.0	0%	0	$0.0	0%	1	$0.1	0%	0	$0.0	0%

Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Year-Over-Year Changes in IPO Deal Count by Sector



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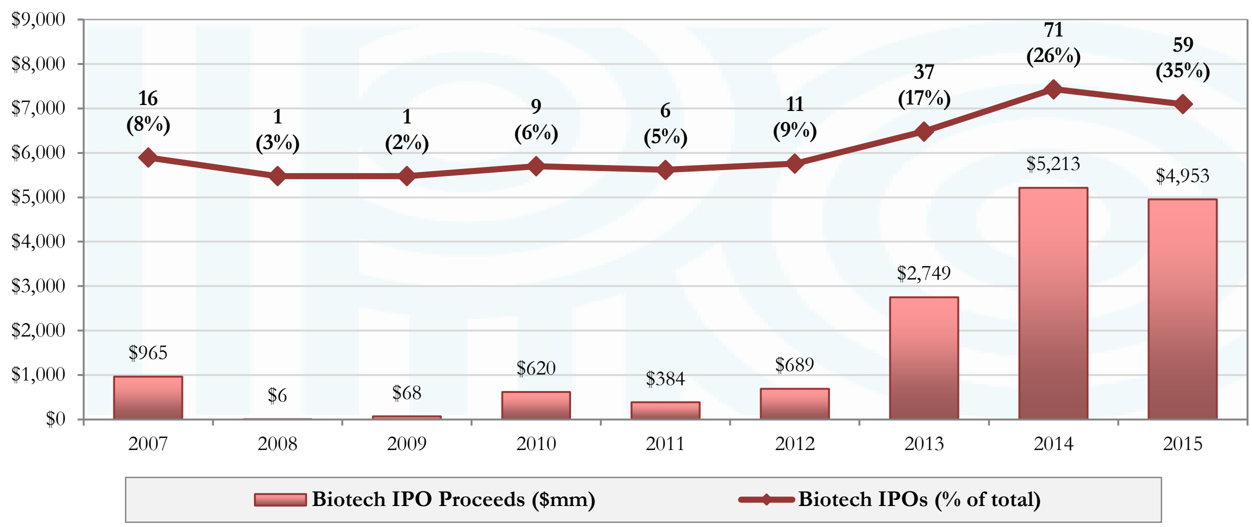
About Renaissance Capital
Renaissance Capital provides pre-IPO institutional research and management of the Renaissance IPO ETF (NYSE symbol: IPO) and the Renaissance International IPO ETF (NYSE symbol: IPOS). For more information, visit www.renaissancecapital.com.

Biotech IPO Spree Continues a Third Year, Representing One-Third of Deal Flow

The last three years produced 167 biotech IPOs, nearly 30% more than the 129 biotech IPOs in the prior 13 years combined. The average biotech raised 14% more proceeds than last year. As the Nasdaq Biotechnology Index soared ever higher during the first half of the year, ten biotech IPOs priced above the range, compared to ten in 2014, five in 2013 and none in 2007-2012. Six biotechs commanded a market cap of more than $1 billion at IPO, up from just two last year, and 18 raised more than $100 million, up from 12 in 2014. Among the standouts were cancer immunotherapy biotech NantKwest, which raised $207 million at a record $2.6 billion market cap, and Alzheimer's-focused Axovant, which raised a record $315 million at a market cap of $1.5 billion. Despite the still-high issuance, biotech returns fell to an average gain of 3% from the offer price, compared to +41% for biotech IPOs during 2014. The number of biotechs declined 17% this year to 59, and their uninspiring performance could cause issuance to decline further in 2016. Tellingly, December was the first month without a biotech IPO since February 2013.

US IPO Activity – Biotech IPOs

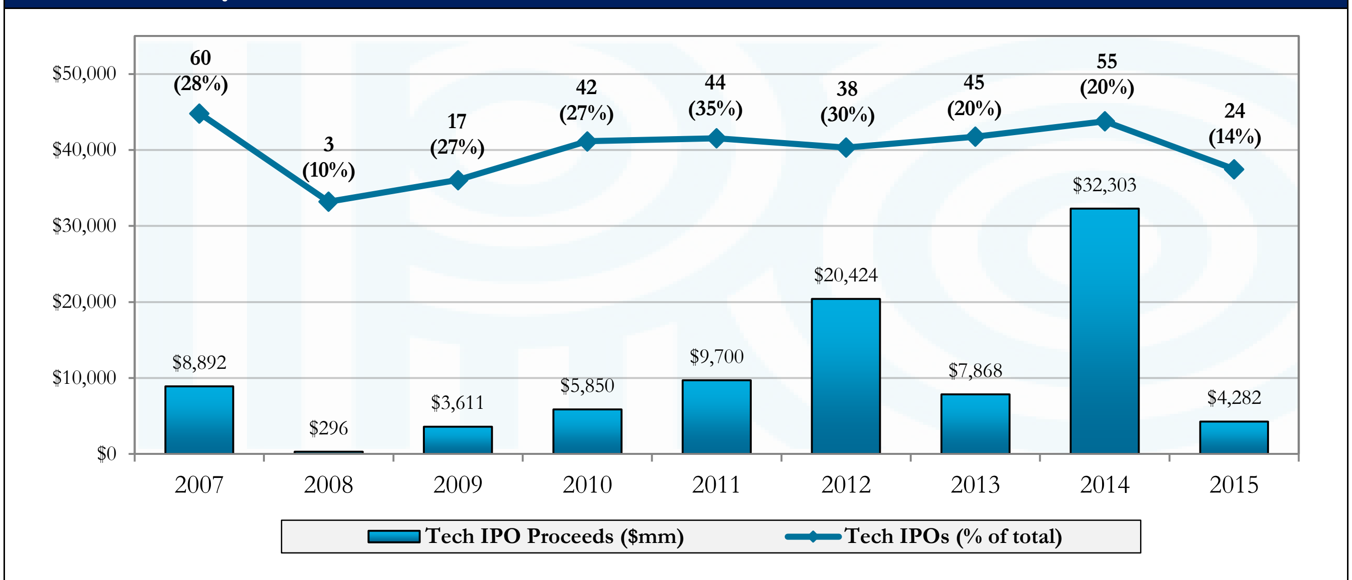


Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Tech IPO Activity Is the Lowest Since 2009; Proceeds Plummet 87%

The amount of capital raised by private US tech companies in 2015 surged by about 50% to over $36 billion according to CB Insights, including over 90 rounds that raised over $100 million. In contrast, only 24 tech companies braved the public markets and raised $4.3 billion, a year-over-year drop of 56% by deal count and 87% by proceeds. Excluding Alibaba's mega-IPO, the decline in proceeds was still 59%. This year, just 19 venture capital-backed tech companies came public and raised $2.6 billion. Tech deals popped 17% on average on the first day but returned only -2% in total. VC-backed tech ended the year even worse with an average return of -4%. Including 2014, VC-backed tech IPOs in the past two years trade on average 7% above their offer price, compared to the Nasdaq's 20% run from the beginning of 2014 through the end of 2015. The 2015 tech IPOs with the highest first-day returns, including Box (+66% first day) and Rapid7 (+58%), ended the year with negative total returns. However, flash memory maker Adesto Technologies (54% total return) was able to generate strong return by slashing its valuation, while Atlassian (43%) demonstrated that profitable software companies with best-in-class growth will still find an eager audience in the IPO market.

US IPO Activity – Tech IPOs



Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

The Number of Large Issuers Falls Significantly

Without a mega deal, the ten largest US IPOs raised $9.9 billion in 2015, the lowest level since 2005. Just three raised over $1 billion, down from eleven in 2014 and seven in 2013. The year's largest IPO, payment processor First Data, had to slash its price to raise $2.6 billion and broke issue on the first day. Its poor reception and the post-Labor Day price sensitivity caused several potential billion-dollar deals to fail to price or delay launching. First Data was the only financial company to make the list, compared to seven last year. Four of the top ten were dividend-paying energy companies, all of which debuted before declining oil prices shut the door for future issuance. The ten largest IPOs averaged a first-day pop of 16%, but the energy sector's severe underperformance dragged down average returns to -12%. Well-known consumer brands like Fitbit, Ferrari and Blue Buffalo drew strong initial receptions, but only Fitbit managed to hold onto those gains.

Largest US IPOs

Company	Ticker	Offer Date	Deal Size ($mm)	Sector	Return from IPO
First Data	FDC	14-Oct	$2,560	Financial	0.1%
Tallgrass Energy GP LP	TEGP	6-May	$1,204	Energy	-44.9%
Columbia Pipeline Partners LP	CPPL	5-Feb	$1,077	Energy	-24.0%
Ferrari	RACE	20-Oct	$893	Capital Goods	-7.7%
Univar	UNVR	17-Jun	$770	Materials	-22.7%
Fitbit	FIT	17-Jun	$732	Consumer	48.0%
Blue Buffalo Pet Products	BUFF	21-Jul	$677	Consumer	-6.5%
TerraForm Global	GLBL	31-Jul	$675	Energy	-62.7%
TransUnion	TRU	24-Jun	$665	Business Services	22.5%
EQT GP Holdings LP	EQGP	11-May	$621	Energy	-23.1%

Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

IPO Performance Nosedives; 57% of Deals End Below Issue

At the end of the year, 57% of IPOs traded below the offer price, compared to 41% at the end of 2014. The average IPO finished the year down -2% from its offer price, below most major indices and negative for the first time since 2011, ending a three-year bull run of 20-40% average returns for IPOs. Until the sharp market correction in August, returns were strong and averaged about 15%, mostly reflected in first-day gains. The S&P 500 and the Nasdaq recovered in October, but 2015 IPOs more closely mirrored small cap indices and spent the entire fourth quarter in negative territory. First-day pops held consistent with historical ranges in 2015 thanks to strong performance prior to Labor Day (+16%), while aftermarket returns were exceptionally weak, also driven by that cohort (-19%).

Return Statistics

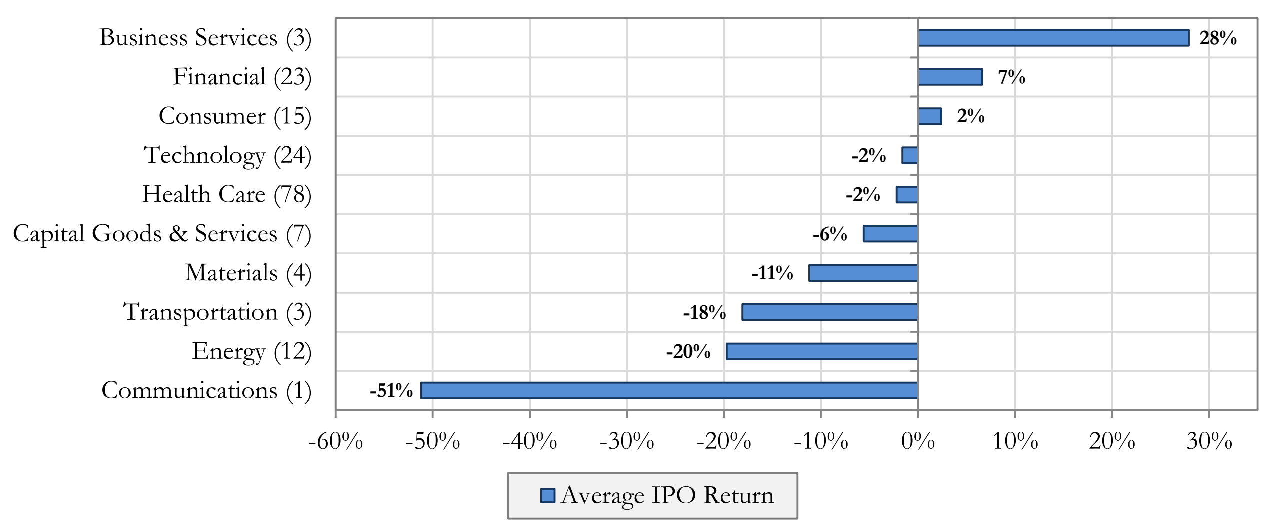
	2011	2012	2013	2014	2015
Avg. Total Return	-9.8%	20.5%	40.8%	21.0%	-2.1%
Avg. First-Day Return	10.5%	14.1%	17.3%	13.5%	14.3%
Avg. Aftermarket Return	-17.5%	5.6%	20.3%	7.2%	-13.5%
% Trading Below Issue at Year-End	59.2%	38.3%	21.6%	40.7%	57.1%
% Deals with **Negative** First-Day Return	32.8%	18.8%	26.6%	27.3%	27.1%
% Deals Priced **Below** the Range	34.4%	39.8%	28.8%	40.0%	32.9%

Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Financials Deliver Positive Returns; Tech and Health Care Notably Weak

With an average return of 7%, financial was the only sector to outperform the prior year and one of the only to trade up in the aftermarket as all eight regional US bank IPOs finished the year in positive territory. Consumer and tech had the highest first-day gains, 28% and 17% respectively, but suffered from severe aftermarket losses, while the volatile biotech sector continued to demonstrate barbell returns. Health care's -2% loss was a steep decline from 2014, when the sector gained 38%, as a broader biotech selloff hit many recent IPOs. Health care returns would have been positive if not for six diagnostics IPOs that plummeted -56% on average. Like last year, the energy sector sold off during the second half amid rapidly falling oil and gas prices, impacting both cash flows and access to capital markets.

US IPO Returns by Sector



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Health Care Dominates List of Best and Worst Performers

Biotechs disproportionately dominated the year's best performers, representing seven of the top ten offerings, while the tech sector was conspicuously absent. None of the top ten in 2015 would have made it on the top ten list from 2013 or 2014. Four priced below the midpoint of the range – Aclaris Therapeutics, Collegium Pharmaceutical, Inotek Pharmaceuticals and KemPharm – and traded up an average of 108% in the aftermarket.

Best-Performing US IPOs

Company	Ticker	Offer Date	Deal Size ($mm)	Sector	First-Day Pop	Return from IPO
Aclaris Therapeutics	ACRS	6-Oct	$55	Health Care	0.5%	144.9%
Collegium Pharmaceutical	COLL	6-May	$70	Health Care	2.4%	129.2%
Spark Therapeutics	ONCE	29-Jan	$161	Health Care	117.4%	97.0%
Advanced Accelerator	AAAP	10-Nov	$75	Health Care	53.1%	95.4%
Seres Therapeutics	MCRB	25-Jun	$134	Health Care	185.6%	94.9%
Inotek Pharmaceuticals	ITEK	17-Feb	$40	Health Care	0.0%	88.8%
Shake Shack	SHAK	29-Jan	$105	Consumer	118.6%	88.6%
KemPharm	KMPH	15-Apr	$56	Health Care	1.8%	80.5%
Penumbra	PEN	17-Sep	$120	Health Care	37.7%	79.4%
Avinger	AVGR	29-Jan	$65	Health Care	3.8%	74.7%

Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

This year's worst performers were primarily very small biotechs, including two focused on drug delivery technology (Zosano, EyeGate) and two pet therapies (Jaguar, Nexvet). Adtech company MaxPoint Interactive was the year's worst IPO, dropping 15% out of the gate and down 85% by year-end as customers cut spending on internet ad campaigns.

Worst-Performing US IPOs

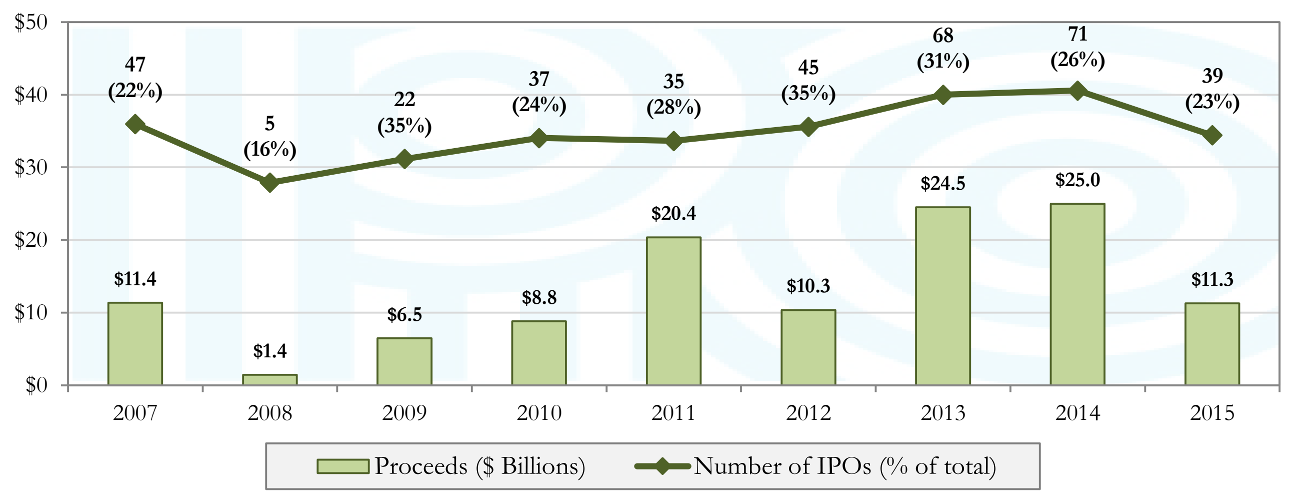
Company	Ticker	Offer Date	Deal Size ($mm)	Sector	First-Day Pop	Return from IPO
MaxPoint Interactive	MXPT	5-Mar	$75	Technology	-15.1%	-87.2%
Zosano Pharma	ZSAN	26-Jan	$50	Health Care	0.1%	-78.0%
Bellerophon Therapeutics	BLPH	13-Feb	$60	Health Care	-25.3%	-76.0%
HTG Molecular Diagnostics	HTGM	6-May	$50	Health Care	-1.6%	-66.4%
Check-Cap	CHEK	18-Feb	$12	Health Care	0.0%	-68.5%
OpGen	OPGN	5-May	$17	Health Care	-19.2%	-70.5%
Jaguar Animal Health	JAGX	13-May	$20	Health Care	-3.1%	-73.1%
EyeGate Pharmaceuticals	EYEG	30-Jul	$10	Health Care	-15.9%	-69.1%
Nexvet Biopharma	NVET	4-Feb	$40	Health Care	-11.2%	-68.1%
TerraForm Global	GLBL	31-Jul	$675	Energy	-6.7%	-70.1%

Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Private Equity Declines as Heavyweights Are Absent in the 4Q 2015

Private equity IPOs ended the year with 39 deals raising $11.3 billion, well below 2013 and 2014 levels but in line with 2010-2012. KKR-backed payments processor First Data raised $2.6 billion in the largest LBO to go public in over four years. It was the only LBO to raise over $1 billion, and, were it not for its late-year debut, 2015 would have been the weakest year for PE-backed IPO exits since the financial crisis. The year's 14 LBOs – the lowest since 2009 – averaged a 3% gain, led by domain registrar GoDaddy (+60%), while the 25 IPOs backed by growth equity, which included high-growth burger chain Shake Shack (+89%), averaged a loss of -3%. At least seven large LBOs had prepared to raise an estimated $7+ billion in the fourth quarter but instead pushed back to 2016, including Albertsons, Neiman Marcus, Univision and McGraw-Hill Education. The year's M&A spree also took several large private equity-backed companies out of the pipeline, including IDC ($5.2 billion buyout by ICE), SunGard ($9.1 billion; FIS), Par Pharmaceuticals ($8.0 billion; Endo International) and Petco ($4.6 billion; CVC/CPPIB), each of which could have raised over $500 million.

US IPO Activity – Private Equity-Backed IPOs

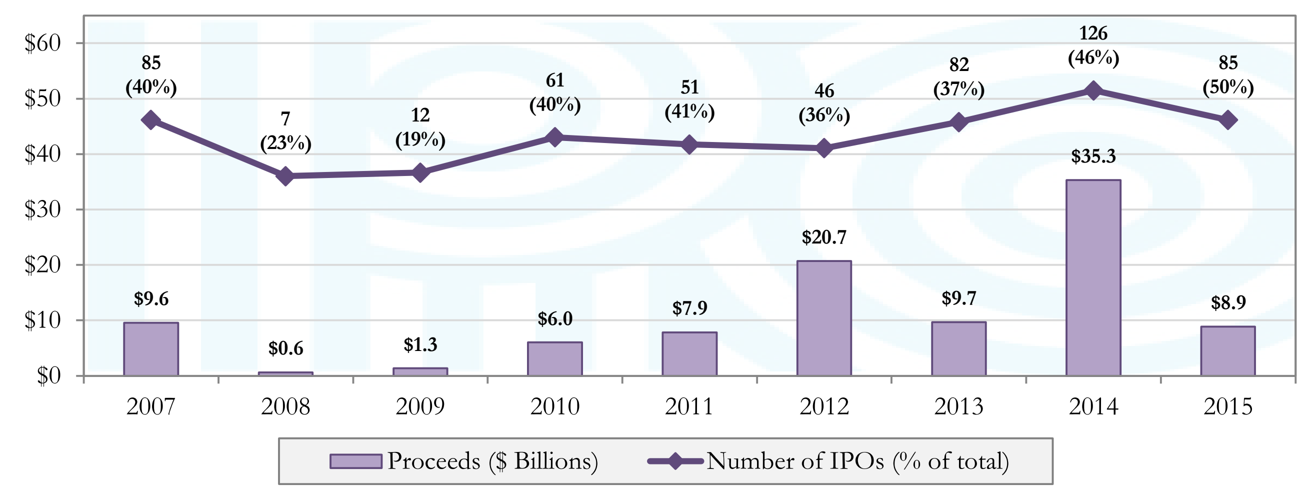


Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Venture Capital Backs Half of 2015 IPOs, Driven by Health Care

Venture capital was behind 50% of all IPOs this year, the largest portion of the IPO market in over ten years, in large part driven by health care holding up better than other sectors. Venture capital-backed IPO exits declined 33% in 2015 due to 19 fewer biotechs and 18 fewer tech deals with VC funding. VC-backed tech activity was the weakest in six years with just 19 IPOs raising $2.6 billion. Proceeds from all VC IPOs fell 75% from last year. Without 2014's $22 billion offering from Alibaba, proceeds would have fallen 35%, in line with the decline in IPO activity. The average venture-backed deal fell ended the year flat, compared to -4% for non-VC IPOs. However, because of broad discounts, VC IPOs in the 4Q 2015 gained 25% on average. Eight of the year's top ten IPOs had venture funding, as well as eight of the bottom ten.

US IPO Activity – Venture Capital-Backed IPOs

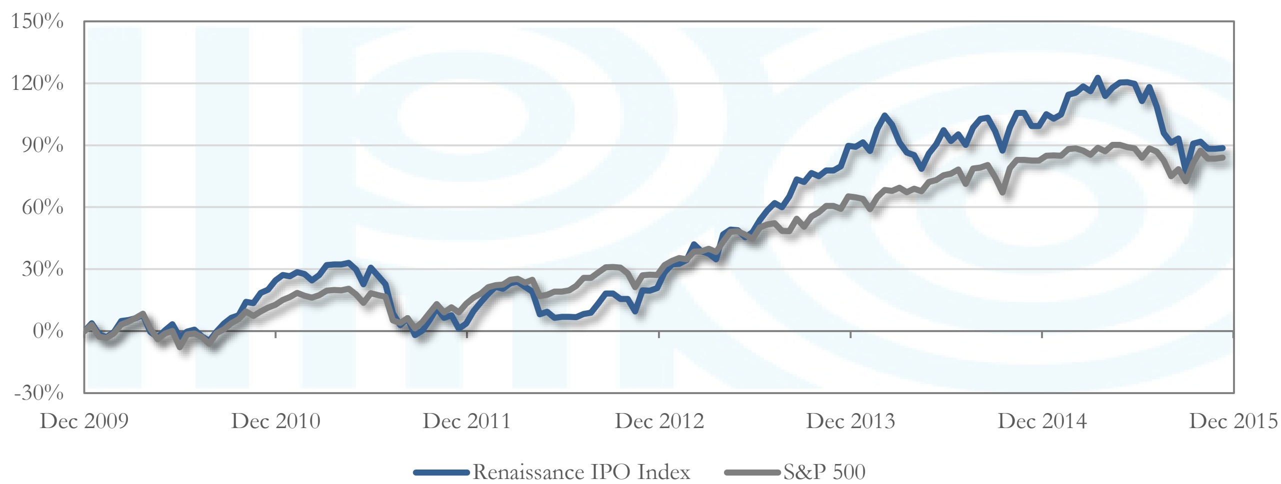


Source: Renaissance Capital. Includes IPOs with a market cap of at least $50 million and excludes closed-end funds and SPACs. Data through 12/31/15.

Dragged Lower by Technology and Consumer Sectors, IPO Index Underperforms

The Renaissance IPO Index (IPOUSA), the underlying index for the Renaissance IPO ETF (IPO), underperformed US equity benchmarks with a -7.9% return compared to the S&P 500's -0.7% return. The Information Technology and Consumer Discretionary sectors were the index's weakest sectors and detracted 3.5% and 2.2% from overall index returns, respectively. Notable securities to drag on index performance in 2015 included social networking and microblogging service Twitter (TWTR; -37%), wearable and mountable camera manufacturer GoPro (GPRO; -67%), Chinese e-commerce giant Alibaba Group Holdings (BABA; -22%) and global hotel and resort operator Hilton Worldwide (HLT; -18%). Partially offsetting the largest detractors were strong performances from JD.com (+39%), Zoetis (+10%) and Tableau Software (43%).

US IPO Index Performance



	2011	2012	2013	2014	2015
Renaissance IPO Index	-16.6%	17.6%	54.3%	7.2%	-7.9%
S&P 500	-1.0%	14.0%	30.9%	11.4%	-0.7%

Note: The Renaissance IPO Index Series represents a rolling two-year population of newly public companies weighted by float adjusted market cap. Data as of December 31, 2015.

IPO Pipeline Builds, But Recent Filing Activity Points to a Slow Start to 2016

A total of 239 companies filed for IPOs in 2015, a 34% decline from 2014 but on par with the ten-year average and more than enough to replace the 170 completed offerings. At year-end, the IPO pipeline contained 118 companies looking to raise $27 billion. An "active backlog" of companies that have submitted filings in the past 90 days stood at 59 deals targeting $13 billion, compared to 85 deals and $16 billion at the end of last year. Only 10 companies filed in the final month – the slowest December since 2008 – suggesting a calm start to 2016. A new law passed in December has altered the filing dynamic heading into 2016, allowing emerging growth companies to file publicly and then launch a roadshow just 15 days later instead of 21.

The top four sectors in the active pipeline are health care (19 IPOs; 32%), consumer (8; 14%), financial (8; 14%) and technology (8; 14%). A handful of biotech and medtech deals filed in the 4Q 2015 but deferred to 2016. Most of the tech sector's pending deal flow sits in the shadow IPO backlog, but the four tech filings in December point to a pickup in tech IPO activity in 2016. Three IPOs in the active backlog, Albertsons Companies, Laureate Education and Univision, could each raise over $1 billion in 2016. Luxury retailer Neiman Marcus announced in October that its potentially billion-dollar offering was on hold until 2016, and weak financial results reported in December support the decision. Payment processor TransFirst Holdings refiled for an IPO in October 2015, one year after its acquisition, and is reportedly running a dual track process for a sale or public offering as M&A continues to provide a potential exit for PE owners. Four industrial goods LBOs on file may also opt for a sale. Indoor cycling chain SoulCycle and low-cost television brand Vizio have been on file since the third quarter; both could go in the beginning of the year. Notable December filings include exchange operator BATS Global Markets, Dell spinoff SecureWorks and storage provider Nutanix.

Notable IPOs on File

Company	Business	LTM Sales ($mm)	Est. Deal Size ($mm)	Industry
Albertsons Companies	Third-largest US grocer operating Albertsons, Safeway and other brands.	$58,144	$1,600	Consumer
Univison	Leading American Spanish-language media company.	$2,850	$1,000	Communications
Neiman Marcus Group	Leading luxury department retailer with 43 full-line stores in the US.	$5,095	$1,000	Consumer
Laureate Education	Largest for-profit higher education company.	$4,470	$1,000	Business Services
McGraw-Hill Education	Apollo-backed academic publisher spun out of McGraw-Hill Financial.	$1,846	$500	Business Services
SecureWorks	Managed security services provider being spun out of Dell.	$317	$300	Technology
BATS Global Markets	Operates equities and options exchanges in the US and Europe.	$1,769	$300	Financial
TransFirst Holdings	Provides electronic payment processing to SMBs.	$1,481	$250	Financial
Nutanix	Software-defined storage appliance provider.	$283	$200	Technology
At Home Group	Operates 94 home decor stores in the South and Midwest.	$592	$200	Consumer
Vizio	US-based low-cost manufacturer of TVs and soundbars.	$3,267	$173	Consumer
Elevate Credit	Provider of loans and lines of credits to non-prime consumers.	$394	$100	Financial
SoulCycle	Indoor cycling fitness chain, spun out of Equinox, with 44 locations.	$151	$100	Consumer
Proteostasis Therapeutics	Developing combination therapeutics that modulate proteins.	$4	$86	Health Care

Source: Renaissance Capital. All $ are in millions.

Nearly 300 Names Are in the Shadow Backlog of Potential IPOs

Our Private Company Watchlist (PCW) has grown to 277 companies, including nearly 50 companies that are known either to have filed confidentially or selected banks for an IPO. The technology sector continues to make up a large portion of the PCW (186; 67%), and major themes include enterprise software, big data, cybersecurity, Internet of Things and the sharing economy. Some notable companies in our PCW that are likely on track for a 2016 IPO include US Foods, which saw its merger with Sysco blocked by the FTC earlier this year, and MGM Growth Properties, an MGM Resorts-backed gaming REIT that is planning to list in the 1Q 2016. Other notable tech names include instant messaging app Line, which postponed its IPO in each of the last two years, and Apache Hadoop-based data analytics platform Cloudera, which received a $4+ billion valuation in a 2014 funding round and was reportedly targeting a late 2015 IPO.

Notable Members of Our Private Company Watchlist

Company	Business	Est. Valuation	Industry
US Foods	Second-largest US foodservice distributor.	$8,200	Consumer
Line	Japanese application for instant messaging on smartphones and PCs.	$8,100	Technology
MGM Growth Properties	MGM Resorts-backed REIT with portfolio of 10 gaming properties.	$5,500	Financial
Cloudera	Cloud-based data analytics platform based on Apache Hadoop.	$4,100	Technology
Jeld-Wen	Global manufacturer of windows, doors and treated composite panels.	$4,000	Capital Goods
SoFi	Peer-to-peer lending platform for student loan financing.	$4,000	Financial
Zaxby's Franchising	Chicken-focused restaurant chain with 700 restaurants across 16 states.	$2,000	Consumer
Acushnet	Manufactures and markets golf equipment under several brands.	$2,000	Consumer
Okta	Provides on-demand identity and access management for enterprises.	$1,175	Technology
Twilio	Develops APIs for adding SMS, voice and VoIP to applications.	$1,100	Technology

Source: Renaissance Capital. All $ are in millions.

An IPO by a well-advertised, multi-billion-dollar privately valued name like Uber, Airbnb, Spotify and Pinterest could also be in the cards, and would likely headline IPO activity for the tech sector in 2016.

Mega Tech Names in the Private Company Watchlist – Who Will Take the Leap in 2016?

Company	Business	Est. Valuation	Investors
Uber	On-demand transportation service.	$62,500	Fidelity, Wellington, TPG
Airbnb	Global network of accommodations offered by locals.	$25,500	Andreessen Horowitz, KPCB
Palantir Technologies	Government and financial data analytics platform.	$20,150	BlackRock, SAC Capital
Snapchat	Mobile app for ephemeral messaging and photo sharing.	$16,000	Fidelity, Alibaba, KPCB
Flipkart	India's largest online retailer.	$15,000	Tiger Global, Naspers
Pinterest	Pinboard-style social photo sharing website.	$11,000	Fidelity, Goldman Sachs
Dropbox	Web-based cloud storage provider.	$10,000	BlackRock, T. Rowe Price
Spotify	Subscription-based music streaming service.	$8,530	Goldman Sachs, Accel

Source: Renaissance Capital. All $ are in millions.

Outlook

Forecasting the coming year for IPOs is usually an easy task – predicting the continuation of established or emerging sector trends. In contrast, 2016 is difficult to decipher because several key themes may be shortly coming to an end, such as biotechs, or remain unresolved, most notably the public-private valuation disconnect for VC-backed tech issuers. Thus, we suspect that the 2016 US IPO market may be driven by factors not yet on the table.

With the equity markets having adjusted to the new world order of a much-delayed US Fed tightening cycle, a strong dollar and European easing, one of the key dynamics in 2016 may be pressure by venture funds seeking to monetize their sizable portfolios of long-incubating emerging growth companies. We know that large VC companies like Uber, Airbnb and Dropbox have stayed private longer than the norm due to the availability of copious amounts of private funding, which was not the case in the past, and valuations are higher than the public alternative. Based on the experience of many recent VC-backed IPOs, including Box, Pure Storage and Square, the generous valuations accorded by private investors are not being met with the same wide-eyed optimism by public fund managers.

Valuation disagreement was also not confined to tech; growth companies in other sectors and private equity-backed companies faced pushback from IPO investors. The question is, will private investors be willing to accept only modest premiums to the last venture round, or as in the case of Box and Square, a large discount to the latest private valuation? Only repetitive testing by the realities of public markets can challenge the widespread belief that public valuations will be at a premium to the last private round.

Ironing out the private-public divide is important because this year's US IPO market missed its mark by roughly 50 IPOs by our estimation. There easily could have been another 25 tech deals and another 25 consumer and PE-backed offerings. Part of this is attributable to the heightened volatility that took hold in the second half of 2015, leading to IPO discounts as high as 30-40% compared with the 10-15% norm. Finding the happy medium will be important to healthy, sustainable deal flow.

Another observation we make is that since 2000, there have been only three years, including 2015, when both IPO total and aftermarket returns have been negative. But returns have not been negative two years in a row. In fact, the returns following a down year have been strongly positive, pointing to a better environment for public investors as the IPO mark recalibrates. We witnessed this in the 4Q15, with the average IPO gaining 16%.

Putting it all together, we see a broader range of possible outcomes than we've seen in past years, with the potential for as few as 100 IPOs or as many as 200 IPOs. We expect the 2016 IPO market to kick off much as it ended, rather slowly as both issuers and investors reset expectations and test investor appetite. The good news is that whichever scenario unfolds over the course of the year, there will be pockets of strength and opportunities for outsized returns.