

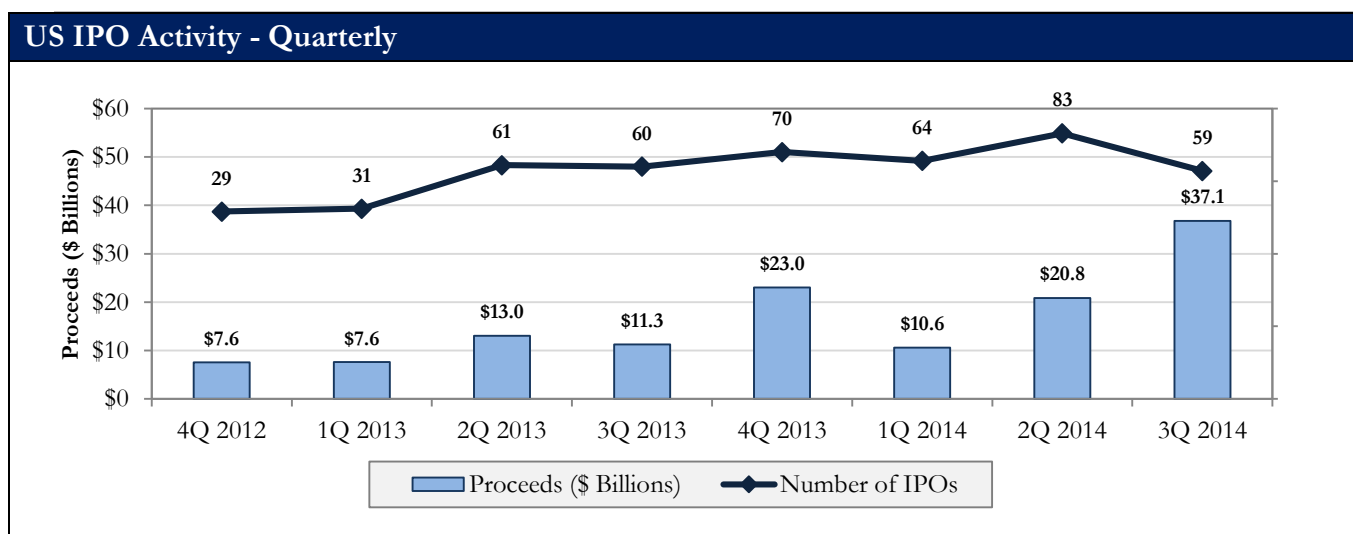
October 1, 2014

## 3Q 2014 IPO Market All About BABA and Biotechs

The US IPO market raised \$37 billion in the third quarter, more proceeds than any quarter since the 4Q99. Most of that capital went to China's e-commerce titan Alibaba (NYSE: BABA), whose record-breaking \$22 billion IPO was larger than all other offerings in the 3Q14 combined. Issuance fell below the previous five quarters at 59 IPOs but was still elevated by historical standards. 2014 year-to-date IPO activity remains strong with 206 offerings, the most since 2000 and a 36% increase over last year. Biotechs dominated the deal calendar with 32% of the quarter's IPOs. Any concerns of froth in the IPO market are tempered by the fact that over half of all IPOs, mostly the biotechs, priced their shares below the proposed range. The total average gain of 21% was slightly lower than recent trends, but still attractive. While an uptick in volatility exiting the 3Q could threaten the IPO market's current momentum, a packed pipeline of IPOs, helped by a record September for new filings (36), should set the stage for a very active fourth quarter in a record year.

### Key Takeaways:

- With \$37 billion in Proceeds Raised, Alibaba-Driven Quarter is the Largest Since 1999
- Health Care Dominates IPO Activity, Tech and Consumer Hold Off
- Alibaba and Three Billion-Dollar Financial Deals Account for 77% of Proceeds
- Over Half of All IPOs Price Below the Range, But Returns Remain Solid
- Consumer and Tech Perform Best, Financials Lag
- Health Care IPO Returns Vary Widely
- Smaller Private Equity IPOs Keep the Sector Active; Venture Capital Features Biotechs and Alibaba
- Renaissance IPO Index Underperforms in the 3Q14
- New IPO Filings Set the Stage for a Robust 4Q14



Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs.

Renaissance Capital is a global IPO investment adviser providing pre-IPO fundamental research and IPO market analytics to institutional investors. Renaissance Capital manages portfolios of unseasoned equities through the *Renaissance IPO ETF* (symbol: IPO), the *Global IPO Fund* (symbol: IPOXX) and separately managed accounts. For more information, visit [www.renaissancecapital.com](http://www.renaissancecapital.com).

Key US IPO Statistics					
	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014
Number of Deals	60	70	64	83	59
Proceeds Raised (US\$)	\$11.3b	\$23.0b	\$10.6b	\$20.8b	\$37.1b
Median Deal Size (US\$)	\$116.1m	\$177.5m	\$90.5m	\$100.0m	\$91.6m
PE-Backed Deals	14	21	16	20	16
PE-Backed Proceeds (US\$)	\$4.0b	\$9.7b	\$6.2b	\$9.4b	\$4.4b
VC-Backed Deals	27	25	40	28	27
VC-Backed Proceeds (US\$)	\$2.5b	\$4.6b	\$3.2b	\$4.4b	\$23.4b
Performance					
Average US IPO Return	26.5%	46.4%	25.3%	21.7%	20.8%
FTSE Renaissance US IPO Index	29.9%	9.5%	3.9%	4.7%	-1.5%
S&P 500	4.7%	9.9%	1.3%	5.5%	0.6%
Russell 3000	5.8%	9.6%	1.5%	5.4%	-0.5%

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 09/30/14.

### With \$37 billion in Proceeds Raised, Alibaba-Driven Quarter is the Largest Since 1999

Alibaba's \$22 billion offering caused the third quarter to raise more proceeds from IPOs than any quarter since 1999 (\$46 billion in the 4Q99). 3Q14 capital raised was up more than three-fold from the 3Q13 and 54% higher than the next highest quarterly peak (\$24 billion; 4Q10) over the last 14 years. Even without the largest IPO ever, the third quarter's remaining \$15 billion is a 36% increase over last year. While the year's three largest deals priced in the third quarter, median deal size fell to \$92 million because of a 58% increase in biotechs compared to the 2Q14. With a few exceptions (Catalent, Mobileye, Travelport), private equity-backed IPOs raised less and were smaller than in prior quarters as no "mega-LBOs" returned to the public markets. Average US IPO returns slipped for the third straight quarter, but far outpaced broader indices, helped by five deals that gained 100% or more. Companies are still filling the pipeline, leading to the most active third quarter for initial filings (85) since 2007 (103).

### Health Care Dominates IPO Activity, Tech and Consumer Hold Off

Nearly half of all IPOs in the 3Q14 were health care, driven by 19 biotech offerings and a half dozen early-stage diagnostic and medical products providers. With just seven offerings, tech represented a relatively low percent of deals due to elevated levels in the prior quarter, particularly from Chinese tech IPOs, and possibly a decision to wait until after Alibaba. Only two tech deals priced in September, compared to eight in September 2013.

IPOs by Sector (US\$ Billion)															
Sector	3Q 2013			4Q 2013			1Q 2014			2Q 2014			3Q 2014		
	#	\$	% of IPOs	#	\$	% of IPOs	#	\$	% of IPOs	#	\$	% of IPOs	#	\$	% of IPOs
Technology	14	\$1.5	23%	15	\$4.6	21%	14	\$1.9	22%	23	\$4.7	28%	7	\$23.4	12%
Financial	6	\$1.4	10%	14	\$3.8	20%	5	\$2.4	8%	11	\$4.5	13%	8	\$7.4	14%
Health Care	19	\$3.0	32%	12	\$1.1	17%	30	\$1.9	47%	22	\$1.7	27%	27	\$2.5	46%
Materials	2	\$0.2	3%	2	\$0.4	3%	0	\$0.0	0%	1	\$0.2	1%	5	\$1.4	8%
Energy	9	\$3.1	15%	8	\$6.4	11%	6	\$2.3	9%	11	\$5.2	13%	5	\$1.6	8%
Consumer	4	\$0.9	7%	9	\$4.3	13%	2	\$0.3	3%	7	\$1.9	8%	2	\$0.3	3%
Transportation	2	\$0.5	3%	4	\$1.2	6%	1	\$0.3	2%	2	\$0.3	2%	1	\$0.2	2%
Business Services	0	\$0.0	0%	1	\$0.7	1%	3	\$1.1	5%	2	\$1.4	2%	2	\$0.2	3%
Communications	0	\$0.0	0%	2	\$0.3	3%	0	\$0.0	0%	0	\$0.0	0%	1	\$0.1	2%
Utilities	0	\$0.0	0%	0	\$0.0	0%	0	\$0.0	0%	0	\$0.0	0%	1	\$0.1	2%
Capital Goods	4	\$0.7	7%	3	\$0.3	4%	3	\$0.3	5%	4	\$0.8	5%	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.

### Alibaba and Three Billion-Dollar Financial Deals Account for 77% of Proceeds

The year's three largest IPOs priced in the third quarter. Alibaba gained 38% on its first day, the highest pop for a \$2+ billion IPO since 2000, due to a conservative valuation and compelling story. The quarter had three billion-dollar financial IPOs as RBS spun off its Citizens banking unit, GE spun off its consumer lending arm and Colombia's Grupo Aval listed in the US. The ten largest IPOs averaged a 15% return on the first day and 7% in the aftermarket, above the quarter's overall performance levels, though Mobileye boosted the averages. Excluding Mobileye, average first-day returns were 11% with just 3% average gains in the aftermarket.

Largest US IPOs						
Company	Ticker	Offer Date	Deal Size (\$mm)	Sector	Return from IPO	
Alibaba Group Holding	BABA	18-Sep	\$21,767	Technology	30.7%	
Citizens Financial Group	CFG	23-Sep	\$3,010	Financial	8.9%	
Synchrony Financial	SYF	30-Jul	\$2,875	Financial	7.4%	
Grupo Aval Acciones y Valores S.A.*	AVAL	22-Sep	\$1,100	Financial	0.4%	
Mobileye	MBLY	31-Jul	\$890	Technology	114.4%	
Catalent	CTLT	30-Jul	\$871	Health Care	22.1%	
Travelport Worldwide	TVPT	24-Sep	\$480	Technology	1.6%	
Israel Chemicals*	ICL	23-Sep	\$421	Materials	3.3%	
CONE Midstream Partners LP	CNNX	24-Sep	\$385	Energy	27.7%	
Transocean Partners LLC	RIGP	31-Jul	\$385	Energy	17.1%	

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 09/30/14.

\*US IPO of shares listed on a foreign exchange.

### Over Half of All IPOs Price Below the Range

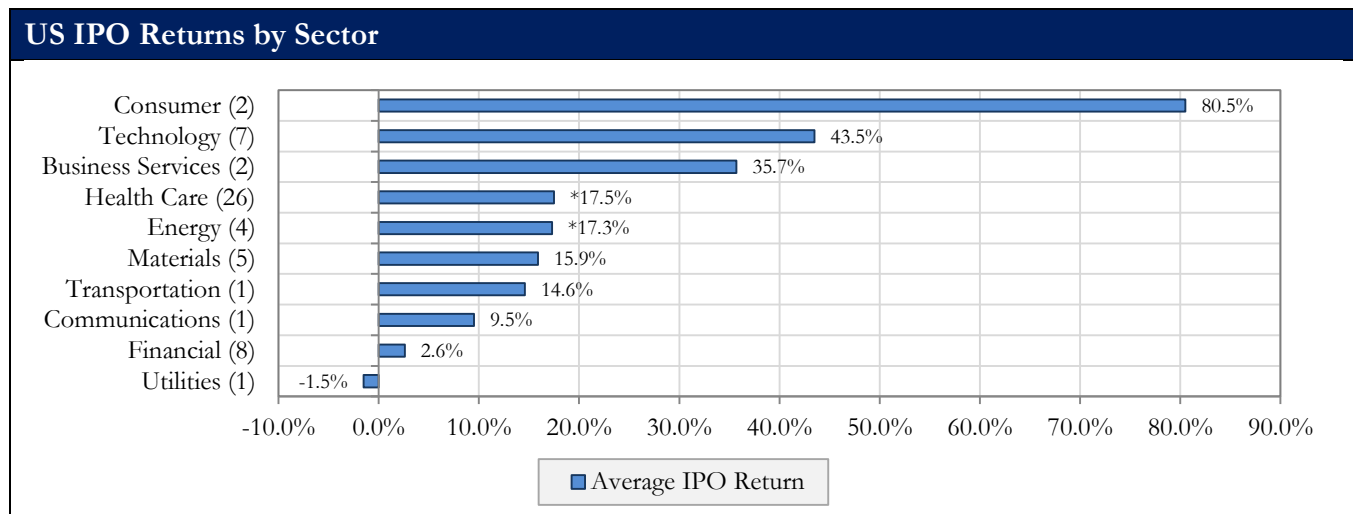
Investors balked at the valuation of many biotechs and financial companies as 53% of IPOs priced below the initial range. Suggesting those discounts were warranted, total average returns were slightly below that of the second quarter, despite higher first-day gains (14%). Larger technology IPOs commanded the highest pricing premiums and first-day returns. Just one IPO spiked over 100% on its first day, compared with four in the first quarter and none in the second. IPO performance reached its peak in mid-September, and the subsequent tapering in broader indices has dampened aftermarket returns. That said, they remained positive for the ninth straight quarter and outperformed equity indices.

Return Statistics	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014
Avg. Total Return	26.0%	46.4%	25.3%	21.7%	20.8%
Avg. First-Day Return	19.0%	21.8%	20.3%	9.2%	13.7%
Avg. Aftermarket Return	6.8%	20.3%	6.8%	11.3%	5.7%
% Deals with <b>Negative</b> First-Day Return	30.0%	22.9%	23.4%	28.4%	26.3%
% Deals Priced <b>Below</b> the Range	25.0%	30.0%	26.6%	38.6%	52.6%

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 09/30/14.

### Consumer and Tech Perform Best, Financials Lag

The health care sector, which included mainly discounted biotechs, saw more muted average returns than the prior two quarters and averaged just below the broader group. Excluding two outliers (ReWalk Robotics and Avalanche Biotechnologies), average health care performance was 7.5%. Consumer led the group due to the breakout performance of El Pollo Loco, one of the sector's two deals. The third quarter's fewer technology IPOs outperformed historical averages, yet outside of Mobileye, the sector saw most of its gains in first-day trading. Financials underperformed, with only one of eight deals posting a return above 10%.



Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 09/30/14.

\*Excludes Vivint Solar and Vascular Biogenics, which priced September 30 but began trading on October 1

## Health Care Makes Up Best and Worst IPOs

The ten best-performing IPOs of the 3Q14 consisted mostly of early-stage health care companies with attractive market opportunities and high-growth technology deals. All have traded up after their first day. Three priced below the range, including top performer ReWalk Robotics, the quarter's only IPO to double on its first day. Restaurant chain El Pollo Loco was one of only two consumer deals. Three of the quarter's seven technology deals made the top ten (driver assistance camera maker Mobileye, security software company CyberArk and adtech firm TubeMogul). The top ten IPOs averaged a 54% return on the first day and 23% thereon.

Best-Performing US IPOs						
Company	Ticker	Offer Date	Deal Size (\$mm)	Sector	First-Day Pop	Return from IPO
ReWalk Robotics	RWLK	11-Sep	\$36	Health Care	113.3%	175.8%
El Pollo Loco Holdings	LOCO	24-Jul	\$107	Consumer	60.2%	139.4%
Mobileye	MBLY	31-Jul	\$890	Technology	48.0%	114.4%
Avalanche Biotechnologies	AAVL	30-Jul	\$102	Health Care	64.6%	101.1%
CyberArk Software	CYBR	23-Sep	\$86	Technology	87.1%	100.1%
Sage Therapeutics	SAGE	17-Jul	\$90	Health Care	67.2%	76.8%
TubeMogul	TUBE	17-Jul	\$44	Technology	64.3%	73.0%
T2 Biosystems	T2OO	6-Aug	\$57	Health Care	30.2%	61.7%
Otonomy	OTIC	12-Aug	\$100	Health Care	7.2%	50.0%
Immune Design	IMDZ	23-Jul	\$60	Health Care	0.4%	47.2%

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 9/30/2014.

Eight of the ten worst-performing IPOs were biotech or diagnostic companies. Unlike the second quarter, the worst-performing IPOs were not hobbled by a major market correction, and their poor performance relates more to company-specific issues. Not surprising in a quarter with high biotech activity, eight of the ten had market caps of less than \$200 million at the time of the IPO.

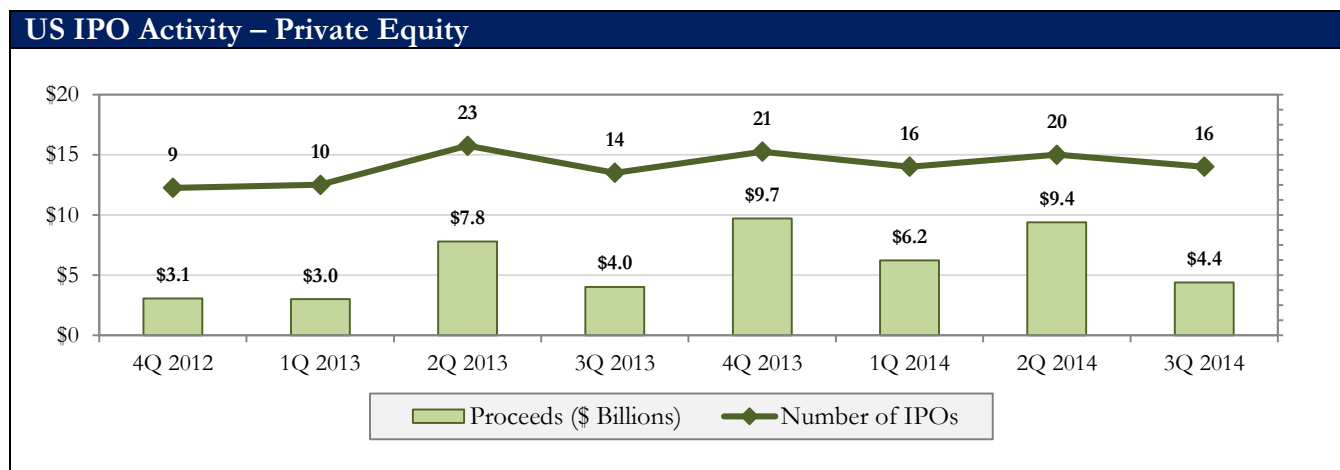
Worst-Performing US IPOs						
Company	Ticker	Offer Date	Deal Size (\$mm)	Sector	First-Day Pop	Return from IPO
Bio Blast Pharma	ORPN	30-Jul	\$35	Health Care	-23.6%	-33.9%
GlobeImmune	GBIM	1-Jul	\$15	Health Care	10.5%	-30.9%
CareDx	CDNA	16-Jul	\$40	Health Care	-9.5%	-30.0%
Medical Transcription Billing	MTBC	22-Jul	\$20	Technology	-14.4%	-28.8%
MacroCure	MCUR	30-Jul	\$54	Health Care	-27.5%	-28.0%
Innocoll	INNLL	24-Jul	\$59	Health Care	0.0%	-26.7%
Marinus Pharmaceuticals	MRNS	31-Jul	\$45	Health Care	0.0%	-19.1%
Trupanion	TRUP	17-Jul	\$71	Financial	14.0%	-14.2%
Roka Bioscience	ROKA	16-Jul	\$60	Health Care	0.0%	-13.8%
Affimed Therapeutics	AFMD	11-Sep	\$56	Health Care	-18.6%	-10.0%

Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs. Returns as of 9/30/2014.

**Renaissance Capital** is a global IPO investment adviser providing pre-IPO fundamental research and IPO market analytics to institutional investors. Renaissance Capital manages portfolios of unseasoned equities through the *Renaissance IPO ETF (symbol: IPO)*, the *Global IPO Fund (symbol: IPOSX)* and separately managed accounts. For more information, visit [www.renaissancecapital.com](http://www.renaissancecapital.com).

### Private Equity Keeps Active with Smaller IPOs

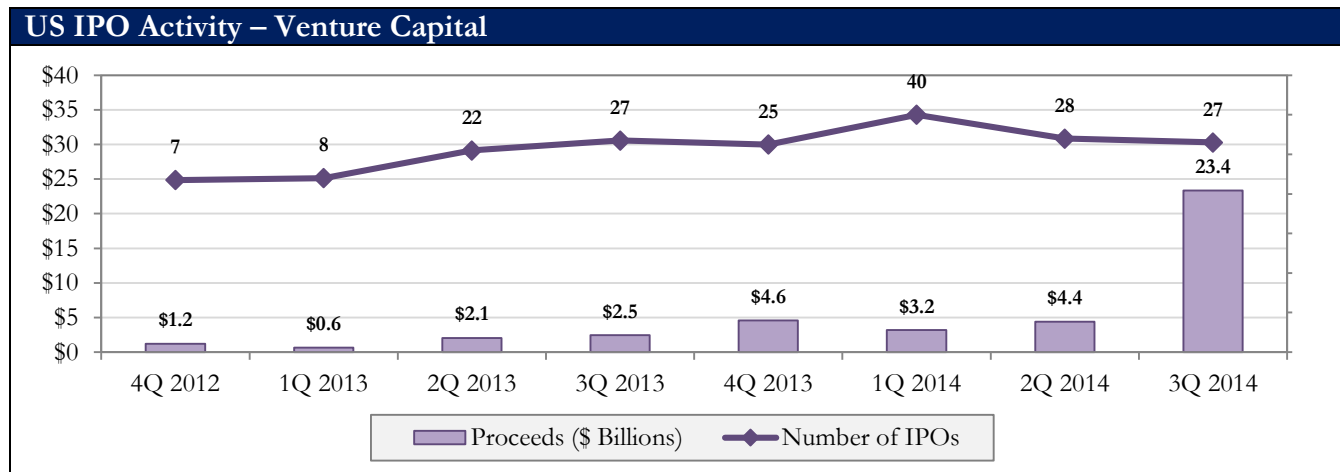
Sixteen IPOs had private equity backing, representing a greater percent of the quarter's total deal count than the prior two quarters. PE raised less than half the proceeds of the 2Q14 as median deal size fell by 60%, reflecting a greater mix of growth equity (9) and lack of any "mega LBOs." Blackstone remained the most active PE firm with IPO exits in Travelport, which supports airline reservations; Catalent, which develops drug delivery technology; and Vivint Solar, which installs residential solar panels. Raising \$890 million, Mobileye was the largest of the group. It and El Pollo Loco both gained over 100% from the IPO price, driving the group average return to 26%, in large part due to strong aftermarket trading.



Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs.

### Venture Capital Features Biotech and Alibaba

For the fifth-straight quarter, the IPO market saw 25 or more VC offerings; none of the prior 22 quarters had hit this mark. Issuance continued to be driven by biotech, which accounted for 70% of VC-backed activity. Excluding Alibaba, proceeds would have been only \$1.6 billion, below the prior five quarters, with the median deal size (\$57mm) far below historical averages due to disproportionately low tech and high biotech. The group averaged 23% returns, with 5% from post-IPO trading.

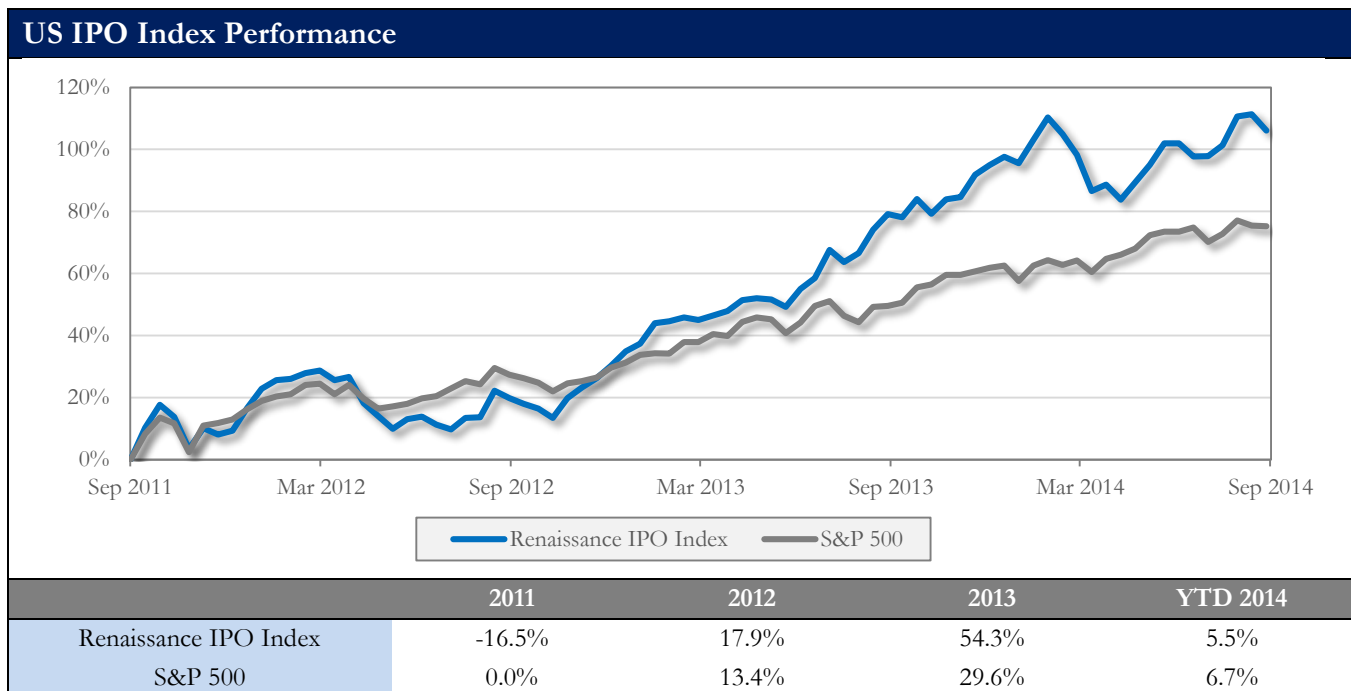


Source: Renaissance Capital. Includes IPOs with a market cap of at least \$50 million and excludes closed-end funds and SPACs.

Renaissance Capital is a global IPO investment adviser providing pre-IPO fundamental research and IPO market analytics to institutional investors. Renaissance Capital manages portfolios of unseasoned equities through the *Renaissance IPO ETF* (symbol: IPO), the *Global IPO Fund* (symbol: IPOXX) and separately managed accounts. For more information, visit [www.renaissancecapital.com](http://www.renaissancecapital.com).

## Renaissance IPO Index Underperforms in the 3Q14

The Renaissance IPO Index, the underlying benchmark for the Renaissance IPO ETF (IPO), slightly underperformed US equity benchmarks with a quarterly return of 0.5% compared to 0.6% for the S&P 500. Energy and Consumer Discretionary stocks were the biggest detractors from performance in the 3Q14. Detractors from the Energy sectors included oil and natural gas E&P firm DiamondBack Energy (FANG; -15.8%), natural gas E&P company Rice Energy (-12.6%), and Apollo-backed oil E&P firm EP Energy (EPE; -24.2%) while detractors from the Consumer Discretionary sector included Blackstone-backed theme park operator SeaWorld Entertainment (SEAS; -31.4%) and casual dining restaurant operator Bloomin' Brands (BLMN; -15.8%). The index did have some bright spots this quarter as several index heavyweights, including social networking and microblogging site Twitter (TWTR; 25.9%) and Dean Foods' organic dairy unit Whitewave Foods (WWAV; 12.2%), posted solid returns.



Note: The Renaissance IPO Index represents a rolling two-year population of newly public companies included after the first day of trading and weighted by float adjusted market cap. Data as of September 30, 2014.



### New IPO Filings Prepare Robust 4Q14

The US IPO pipeline expanded to 142 companies looking to raise an estimated \$31 billion, compared with 136 expected to raise \$51 billion at the end of the 2Q14. 85 companies submitted initial filings for IPOs, more than any third quarter since 2007. Despite the market's stall in late September, IPO returns have been strong, market volatility is still in check and broader equity indices are up year-to-date. Even with Alibaba out of the picture, a number of large deals have filed to go public, with five or more billion-dollar deals expected in the 4Q14. The first should be frac sand LBO Fairmount Santrol. Recent updates from Shell Midstream, GoDaddy and Zayo Group suggest the three are readying IPOs. With global tech and e-commerce picking up, French/Brazilian online retailer Cnova could also kick off its roadshow in the coming weeks.

#### Large Notable Upcoming IPOs

Company	Business	Sector	LTM Sales (\$mm)	Deal Size (\$mm)
Paramount Group	Office REIT with 12 buildings in NY, CA and Washington, D.C.	Financial	\$374	*\$2,500
Fairmount Santrol <sup>^</sup>	LBO'd provider of sand products to oil and gas E&Ps.	Energy	\$1,169	\$1,001
Axalta Coating Systems	Provides auto coatings to body shops and manufacturers.	Capital Goods	\$4,378	*\$1,000
Univar	LBO'd global chemicals distributor.	Materials	\$10,417	*\$1,000
Cnova	French and Brazilian e-commerce site spun out of Casino.	Technology	\$4,292	*\$1,000
Shell Midstream Partners	MLP spinoff of crude oil and refined products pipelines.	Energy	\$117	\$750
GoDaddy	Leading provider of web registration and domain hosting.	Technology	\$1,251	*\$750
Arysta LifeScience	LBO'd provider of crop protection chemicals.	Materials	\$1,509	*\$500
Zayo Group	Provides a fiber optic bandwidth infrastructure.	Communications	\$1,123	*\$500
Lending Club	Facilitates over \$3 billion of annual peer-to-peer lending.	Financial	\$148	*\$500

Source: Renaissance Capital. \*RC estimate. <sup>^</sup>Set to price on 10/2

In addition to the visible pipeline, our private company watchlist contains roughly 250 companies that we believe have the potential to tap the public markets in the next eighteen months. A number of these have filed confidentially, including Blackstone REIT IndCor Properties and lending platform OnDeck, the last of which could move quickly if Lending Club is well received. Citi announced plans to IPO its subprime lending arm in the 4Q14, and SunEdison confirmed it submitted a confidential filing for an emerging markets solar power yield vehicle.

#### Notable Private Companies Expected to Seek IPOs

Company	Business	Sector	Est. Valuation (\$mm)
IndCor Properties*	Industrial REIT formed by Blackstone.	Financial	\$8,000
Triton Container	Largest owner-lessor of marine intermodal cargo containers.	Transportation	\$6,000
OneMain Financial <sup>^</sup>	Subprime consumer lending arm of Citigroup.	Financial	\$4,000
Dianping**	Chinese Yelp-like website with reviews on food and entertainment.	Technology	\$3,000
OnDeck*	Operates an online small business lending platform.	Financial	\$1,500
Outbrain	Ad platform providing content recommendation below web articles.	Technology	\$1,000
Shake Shack**	Hamburger fast-food chain with 30 US and 21 international locations.	Consumer	\$1,000
Floor & Décor	Flooring and tile products retailer with over 30 locations in the US.	Consumer	n/a
Datalogix**	Data analytics that tells brands if online ads result in offline purchases.	Technology	n/a
SunEdison Emerging Yield*	SunEdison spinoff with solar power assets in Asia and Africa.	Energy	n/a

Source: Renaissance Capital. \*Confirmed confidential filer \*\*Selected Banks <sup>^</sup>Reportedly pursuing a dual-track IPO.

Renaissance Capital is a global IPO investment adviser providing pre-IPO fundamental research and IPO market analytics to institutional investors. Renaissance Capital manages portfolios of unseasoned equities through the *Renaissance IPO ETF (symbol: IPO)*, the *Global IPO Fund (symbol: IPO SX)* and separately managed accounts. For more information, visit [www.renaissancecapital.com](http://www.renaissancecapital.com).

### Outlook

---

The IPO market appears poised to finish the year by raising a large amount of capital from a high number of deals. Year-to-date filings are 59% higher than last year and 21% higher than 2007. More importantly, we saw the busiest September for initial IPO filings since 2000, giving the fourth quarter an abundant number of active IPO candidates.

Making up 32% of the pipeline, health care should continue to be the most active industry, led by biotechs. Though technology represents only 11% of deals on file, we expect the strong performance of recent tech IPOs to encourage more to go public. For the same reason, MLPs offering growing distributions should also make a strong showing. Familiar names like GoDaddy, Virgin America and especially Lending Club could draw investor interest.

With 206 IPOs year-to-date, the deals already on the calendar for October alone should be enough for 2014 to surpass 2013 and become the most active year for IPOs since 2000. While the recent slide of small-cap stocks and higher volatility could threaten new issuance, IPO returns remain strong, the pipeline is packed and the 2014 IPO market has proven resilient to minor shocks before. Based on our pipeline and historical activity, we estimate 80 IPOs could raise over \$20 billion in the fourth quarter, which would have the year's total approach 300 IPOs raising about \$90 billion.