

Q2 2016 Middle Market Equity Capital Report

*Investors Remain
Cautious Amid
Unique Conditions*



A CohnReznick LLP Report

COHN  **REZNICK**
ACCOUNTING • TAX • ADVISORY

“Unicorns and strategic buyers are shaping today's IPO market.”

Following a striking decrease in initial public offerings (IPOs) in the United States in Q1 2016, Q2 IPO activity displayed signs of life, but still lagged behind 2015 IPO figures.

Even though U.S. stock markets have achieved new highs, various market conditions continue to exert downward pressure on IPO activity. Britain's decision to leave the European Union has already caused market instability and will likely continue to cause some disruption moving forward. Strategic buyers and corporate M&A have grabbed a lot of companies that historically would have been prime candidates to go public. In addition, the so-called “unicorns” are reluctant to access public capital due to uncertainty about valuations, creating a meaningful number of companies that are waiting in the wings. In Q2, Twilio's IPO could be an encouraging sign to other private technology companies to go public and a hopeful indicator of what we might see in the second half of the year.

Today's market conditions are unique. Investors are evaluating IPOs with a higher degree of scrutiny and heightened concern, business models

on a go-forward basis are being challenged, private equity and venture capital remain plentiful (although cautious), and corporate investors seeking growth through mergers and acquisitions are paying premiums for companies they can integrate. Market fundamentals don't appear to have changed. Well-managed companies with growing revenue and profits will continue to draw investor interest.

I hope you find the contents of our report to be informative and helpful as you consider sourcing capital.



Alex Castelli

A handwritten signature in black ink that reads "Alex Castelli".

CPA, Partner,
CohnReznick's
National Liquidity
and Capital
Formation
Advisory
Group

Observations



Unicorn Woes in Technology –

Private companies with valuations in excess of \$1 billion dollars, or unicorns, continue to show reluctance to go public due in part

to valuation concerns causing what we consider to be a log jam in the IPO pipeline. Perhaps Twilio's IPO and subsequent post-IPO performance will encourage other unicorns to go public. The Wall Street Journal and Dow Jones VentureSource report that there are 148 venture backed private companies valued at \$1 billion or more.



Continued Strong Activity in Healthcare and Life Sciences –

When compared to other sectors, healthcare and life sciences companies continue to use the IPO

to access capital. Investors continue to show interest in quality healthcare and life sciences issues.



Dual Track Process Appears to be Gaining Traction –

With the markets difficult to read and the level of investor receptivity unknown, we have observed an

uptick in the number of companies pursuing a dual-track strategy to increase funding options and maximize valuations.



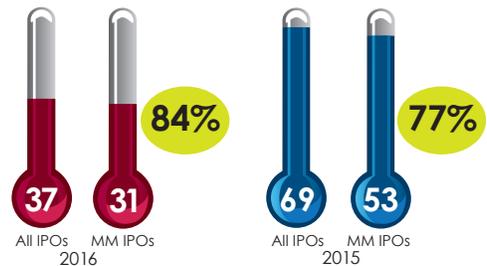
A Return To Public Markets for Small IPOs –

In Q2 we saw a higher percentage of smaller IPOs (proceeds under \$50 million) come to market signaling what may be a

return to the public markets for companies unable to attract private investors like venture capital or private equity. It has been reported that venture capital firms continue to raise money, but are being more cautious with making investments. Could the IPO become an alternative source of capital when the private markets are not accessible?

Q2 Middle Market IPO Activity

The Percentage of IPOs of operating companies with market caps between \$10 million and \$2 billion increased when compared to 2015.

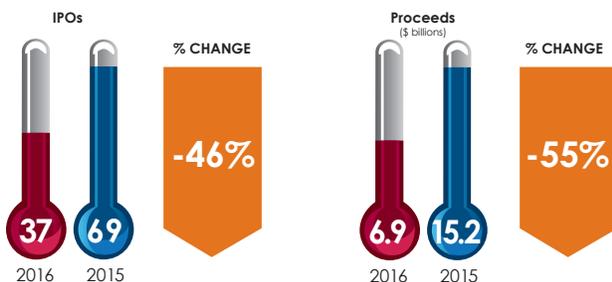


Thinking of Raising Capital?

Q2 2016 Transaction Data

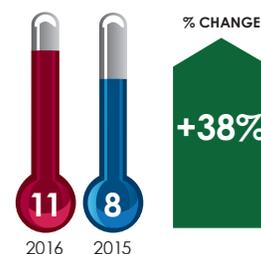
Q2 IPO Activity

IPO activity remains stifled.



Q2 Smaller Transactions

IPOs issued by middle market operating companies with proceeds under \$50 million increased compared to 2015.



Follow-On Transactions

Middle market follow-ons increased compared to 2015. Proceeds from those transactions decreased.

	Q2 - 2016		Q2 - 2015	
	Number of Deals	Proceeds	Number of Deals	Proceeds
Nano Cap	70	\$ 1,184,000,000	40	\$ 479,000,000
Micro Cap	43	\$ 1,663,000,000	44	\$ 2,201,000,000
Small Cap	41	\$ 5,513,000,000	66	\$ 10,572,000,000
TOTAL	154	\$ 8,360,000,000	150	\$ 13,252,000,000

Nano Cap, market cap of \$10m to \$99m
 Micro Cap, market cap of \$100m to \$499m
 Small Cap, market cap of \$500m to \$2b

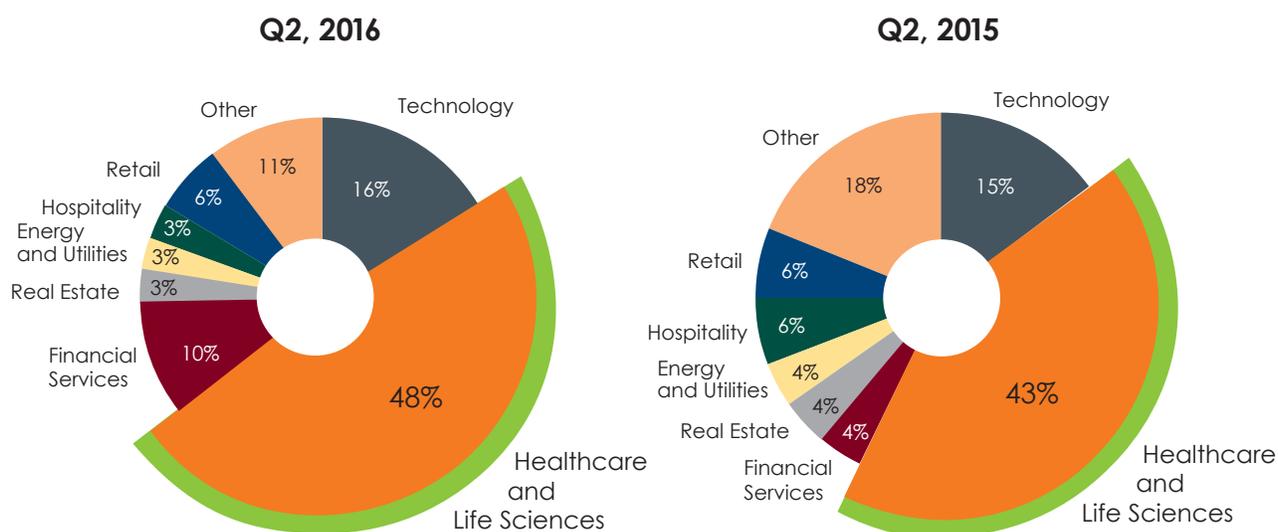
Middle Market Pricing

A greater percentage of middle market IPOs priced below their range reflecting investors' pricing sensitivity.

	Q2 - 2016		Q2 - 2015	
Above	1	3%	9	17%
Within	21	68%	33	62%
Below	9	29%	11	21%
TOTAL	31		53	

IPO Activity by Industry

Investors continue to see opportunities in Healthcare and Life Sciences.



Middle Market Bookrunners

Today, it's common for multiple bookrunners to participate in a single transaction. These bookrunners were involved in four or more middle market IPOs in Q2.

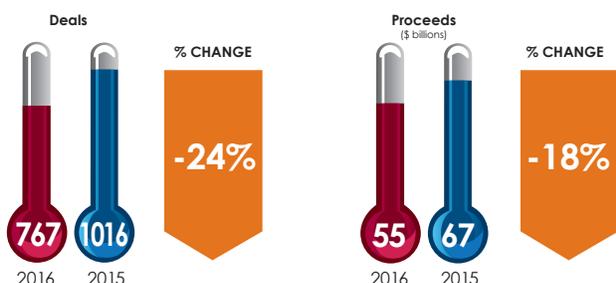
Bank of America Merrill Lynch
Barclays Capital
Citigroup Global Markets
Cowen and Company
Credit Suisse Securities

Deutsche Bank Securities
Goldman Sachs
Jefferies Group
JP Morgan Securities
Morgan Stanley

RBC Capital Markets
UBS Securities
Wells Fargo Securities

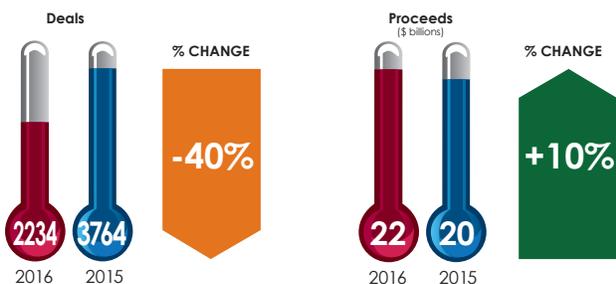
Private Equity Transactions

Private equity deal count and capital invested decreased in Q2—a continued reflection of increased competition for deals, high valuations, and market volatility.



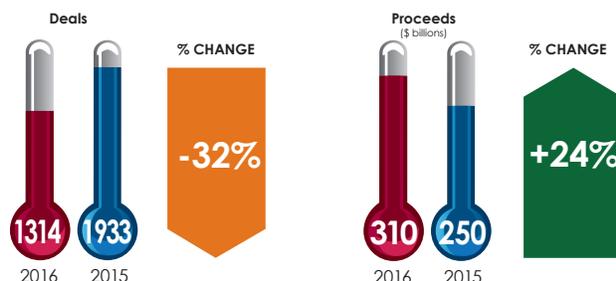
Venture Capital Transactions

Capital invested increased in Q2 while deal count decreased. VCs appear to be approaching deals with greater caution, but are willing to pay more for the right opportunities.



Corporate Mergers and Acquisitions

Corporate acquirers are typically willing to reward targets with higher valuations due to the value realized when integrating the new acquisition.



Conclusion

Based upon the recent highs achieved by the U.S. stock market, one could expect that U.S. IPO activity should be more robust. Remember, preceding today's highs were a series of adjustments caused by market conditions and global political and economic news. The volatility of the market influences investor confidence, which in turn impacts IPO activity. Increased gyrations decrease investor confidence and as we've demonstrated in our report, lead to decreased levels of equity capital transactions. Even so, we encourage middle market business executives to follow and study IPO transaction activity.

Middle market business executives who track IPO activity take away intelligence concerning investor interest in specific industries and public and private market valuations. This is information that can be used to maximize the benefit of future public and private transactions and to maximize the risks associated with poor timing or investor disinterest. As we move through the second half of 2016 and into 2017, we suggest developing a smart, thorough and well-timed strategy for selecting the right type of capital to fuel the growth and development of your company. Absent the highs and lows of the recent past, we expect to see moderate improvement of transaction activity as we move through 2016 and into 2017.

About CohnReznick's Public Companies Group

Utilizing comprehensive resources and deep industry expertise, the professionals of CohnReznick's Public Companies Group understand the goals of both middle market companies and investors to deliver timely and appropriate solutions and services. We understand the challenges and opportunities of the capital markets and possess the forward thinking technical skills and experience necessary to address the needs of clients, investment bankers, investment advisors, attorneys, lenders, investors, managements, audit committees, and the U.S. Securities and Exchange Commission and other regulatory authorities.

- **Alex Castelli**, CPA, Partner, National Liquidity and Capital Formation Advisory Group and Technology and Life Sciences Industry Practice Leader
- **Anton Cohen**, CPA, Partner, Renewable Energy Industry Practice Co-National Director
- **George Gallinger**, Principal, CohnReznick Advisory – Governance, Risk, and Compliance National Director
- **Craig Golding**, CPA, Partner, Technology and Life Sciences Industry Practice
- **David Kessler**, CPA, Partner, Commercial Real Estate Industry Practice National Director
- **Adam Kleeman**, CPA, Partner, Commercial Real Estate Industry Practice
- **Gary Levy**, CPA, Partner, Hospitality Industry Practice Leader
- **Cindy McLoughlin**, CPA, Partner, Hospitality Industry Practice
- **Steven Schenkel**, CPA, Partner, Chief Risk Officer
- **Richard Schurig**, CPA, Partner, Retail and Consumer Products Industry Practice Leader
- **Mark Spelker**, CPA, Partner, National Director of SEC Services
- **Jeremy Swan**, Principal, National Director, Private Equity and Venture Capital Industry Practice
- **Stephen Wyss**, CPA, Partner, Retail and Consumer Products Industry Practices

CohnReznick Advantage for Capital Markets

Industry Insights, Optimized Solutions

- Partners immersed in supporting public companies and capital markets transactions who understand your business drivers.
- Support from industry specialists to offer comprehensive industry-specific solutions and insights.
- Engagement teams utilize the Firm's broad resources to provide innovative solutions and breakthrough ideas.

Transformative Advice

- Timely, relevant views about critical economic, business, legislative, tax, and global news and emerging trends in the capital markets.
- Thought leadership reports, alerts, conferences, and events delivered in the context of what these issues mean to public companies, companies considering a public filing, the capital markets, and your business.

Responsive Culture

- Our partners are empowered and entrepreneurial decision makers.
- They draw on our depth of knowledge and expertise to provide faster, smarter, more efficient service.

Capital Markets Dexterity

- Preparation, valuation, structuring, and facilitation of capital markets transactions, and introductions to capital sources.
- Assistance with acquisitions, dispositions, liquidity events, and other capital-raising needs.

Proactive, Resourceful Service

- A true partner-led service model ensures direct access and active partner management.
- Accountability and expectations are developed to meet your needs and documented in the CohnReznick Client Service Plan.

National and Global Reach

- With offices in 30 cities, we seamlessly and cost-efficiently serve clients on a regional, national, and international basis.
- Companies with international interests in 100+ countries are served through our membership in Nexia International, a global network of independent accountancy, tax, and business advisors.



COHN  **REZNICK**
ACCOUNTING • TAX • ADVISORY

1301 Avenue of the Americas
New York, NY 10019
212-297-0400

www.cohnreznick.com



CohnReznick is an independent member of Nexia International

CohnReznick LLP © 2016

Any advice contained in this communication, including attachments and enclosures, is not intended as a thorough, in-depth analysis of specific issues. Nor is it sufficient to avoid tax-related penalties. This has been prepared for information purposes and general guidance only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is made as to the accuracy or completeness of the information contained in this publication, and CohnReznick LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.