IPO Pipeline

Jessica Hull looks at recent buyout and venture capital-backed portfolio companies that have filed for IPOs

Initial public offerings (IPOs) are an important method used by private equity firms to exit an investment in a buyout- or venture capital-backed company and involve the sale of stock by a private company in the public market via listing on a stock market. Over the last four years, IPOs and follow-on share sales have, on average, accounted for 15% of all global exit activity in both buyout- and venture capital-backed companies. An IPO is an exit strategy that relies on favourable market conditions, and so far this quarter, IPO activity has witnessed an uptick in momentum largely due to improved public market conditions in North America.

At the start of November 2012, Preqin's IPO pipeline data reveals that there are 42 buyout- and venture capital-backed companies globally set to list in the coming weeks, looking to raise $10.3bn in initial public offerings. Of these 42 companies, 21 are buyout-backed, with an aggregate targeted IPO value of $6.6bn. Currently, 21 venture capital-backed companies have also filed for an IPO, seeking to raise $3.7bn. Over three-quarters (76%) of companies in the IPO pipeline are based in North America, making the region the most prominent for forthcoming IPO activity. The 32 buyout- and venture capital-backed companies based in North America are targeting an aggregate IPO value of $8.3bn. Additionally, there are currently five Europe-based buyout- and venture capital-backed companies that have filed to list in the coming weeks, planning to raise $400mn, and a further five companies based in Asia in the IPO pipeline; this puts Asia on par with Europe in terms of forthcoming IPO activity. Interestingly, these Asia-based companies are seeking to raise $1.6bn in public offerings, four times the aggregate targeted IPO value of companies based in Europe.

As of 2 November 2012, 23 buyout- and venture capital-backed companies have completed their IPOs or follow-on share sales, raising $5.5bn from their offerings so far in Q4 2012. This amount is notably close to the aggregate IPO and follow-on share sales amount raised throughout the entirety of Q3 2012, which amounted to $6.5bn. This indicates that Q4 2012 looks set to see a rebound in IPO activity globally, particularly given the healthy number of IPOs in the pipeline. It is likely that Q4 2012 will surpass the previous quarter in terms of IPO activity and could approach the levels witnessed in the last two quarters of 2011, where over $10bn was raised from IPOs in each quarter, as shown in Fig. 2. Even so, IPO activity will struggle to reach the post-Lehman peak witnessed in Q2 2011, when 79 buyout- and venture capital-backed public offerings raised $33.8bn, or the more recent secondary peak in the Facebook-led Q2 2012, which saw $27.6bn raised in public offerings. Facebook accounted for $16bn of this total in its public offering in May 2012.

Of the 23 IPOs and follow-on share sales that have occurred so far in Q4 2012, notable public offerings include the €915.8mn IPO of buyout-backed Ziggo and the $1.1bn IPO of US-based Realogy Corporation. In relation to venture capital-backed companies, the largest IPO so far this quarter was the $637mn IPO of Workday, Inc., which saw the company listing on the NYSE.

Between January and November 2012, North America-based buyout- and venture capital-backed IPOs accounted for 61% of the number and 62% of the value of public offerings globally. This is a marked increase in the prominence of North American IPOs in terms of both number and aggregate value, which since 2009 have accounted for less than 50% of global private equity-backed IPO activity. The increasing amount and value of IPOs in the US is probably due to improved market conditions in the region driven by the increased stimulus in the economy in the run up to the US elections.

European public offerings between January and November 2012 accounted for 12% and 16% of the number and aggregate value of public offerings respectively. This is in sharp contrast to the previous two years, in which the proportion of the number and aggregate value of deals was 19% and 35% respectively,

Fig. 1: IPO Pipeline Breakdown by Region

	Buyout-Backed		Venture Capital-Backed	
Region	No. of Expected IPOs	Aggregate Targeted IPO Value ($mn)	No. of Expected IPOs	Aggregate Targeted IPO Value ($mn)
North America	13	4,805	19	3,504
Europe	4	200	1	200
Asia	4	1,584	1	-
Sub-Total	21	6,589	21	3,704

	No. of Expected IPOs	Aggregate Targeted IPO Value ($mn)
Total (Buyout/Venture Capital)	42	10,293

Source: Preqin Deals Analyst

highlighting a dip in the prominence of Europe-based IPO activity so far this year.

Twenty-five percent of the number and 17% of the value raised in IPOs between January and November 2012 are attributed to companies based in Asia. So far this year, the Rest of World region, which includes Africa, Central and South America, Australasia and the Middle East, has accounted for 2% of the number and 5% of the aggregate value of IPOs and follow-on share sales.

IPO and follow-on share sales have always been an important route for private equity firms to exit their investments and between January and November 2012 have accounted for 13% of all buyout- and venture capital-backed exits, which is roughly on par with the last three years. From 2009 to November 2012, trade sales have been the most popular route for venture capital and buyout firms to exit their investments, with this exit type accounting for almost two-thirds of all global buyout and venture capital-backed exits.

Sales-to-GPs, otherwise known as secondary buyouts, have increased in prominence in the post-Lehman era. In 2009, sale-to-GPs accounted for 10% of all global buyout- and venture capital-backed exits, a much smaller proportion than the average of 20% that sales-to-GPs account for over 2010 to November 2012.

Restructurings often involve a private equity firm giving up its stake to a debt provider in a debt-to-equity swap, and account for only 3% of buyout- and venture capital-backed exits this year. In 2009, restructurings accounted for 13% of all buyout- and venture capital-back exits, owing to a higher number of companies facing financial difficulty and bankruptcy at the height of the financial crisis.

There has currently been $5.5bn raised from buyout- and venture capital-backed public offerings so far in Q4 2012, in comparison to an aggregate IPO amount of $6.5mn raised throughout the entirety of Q3 2012. These figures provide an indication that there will be a further uptick in buyout- and venture capital-backed IPO activity if improved market conditions persist, which will overshadow the low witnessed in Q3 2012. In addition, there are currently 42 buyout- and venture capital-backed companies which have filed to list in the coming weeks looking to raise $10.3bn, which indicates a high potential that Q4 2012 could see further drive in exit activity via the public markets.

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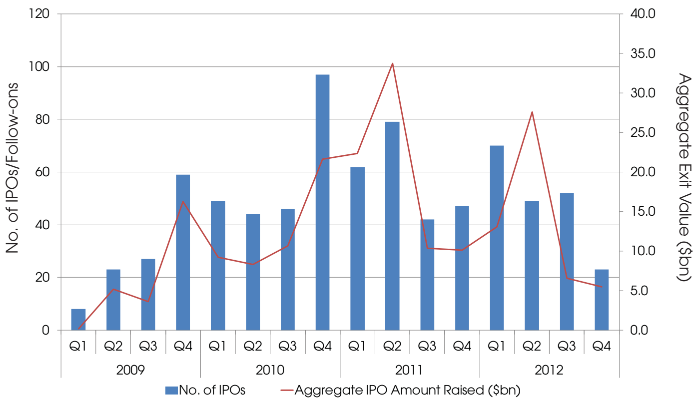
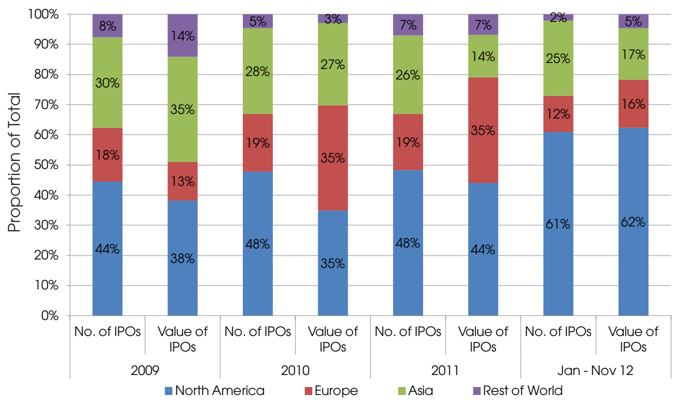
Fig. 2: Number and Value of Buyout- and Venture Capital-Backed IPOs/Follow-ons, Q1 2009 - Q4 2012 (as of 2 November 2012)



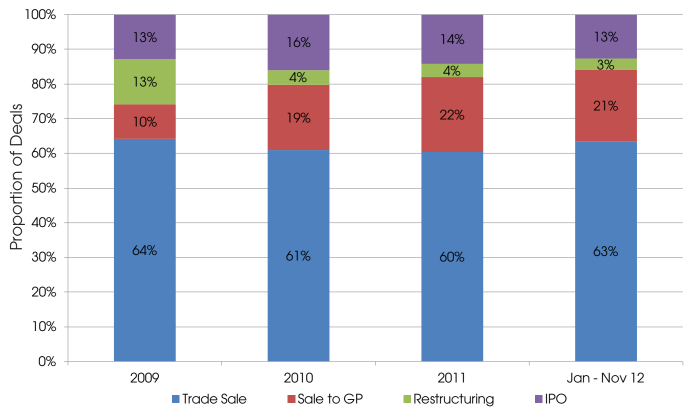
Source: Preqin Deals Analyst

Fig. 3: Proportion of Number and Value of IPOs and Follow-ons by Region, 2009 - November 2012 (as of 2 November 2012)



Source: Preqin Deals Analyst

Fig. 4: Proportion of Number of Buyout and Venture Capital-Backed Exits by Exit Type, 2009 - November 2012 (as of 2 November 2012)



Source: Preqin Deals Analyst