



Middle Market Equity Capital Report

*In Q3, Volatility Exerts Downward
Pressure on IPO Activity*

October 2015
A CohnReznick LLP Report

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY



Preface.....	1
Highlights.....	2
Q3 IPO Activity	3
Middle Market Insights	4
Middle Market Industry Insights	6
Middle Market Snapshot.....	7
Middle Market Follow-on Activity.....	8
Which Banks Made the Middle Market List?	9
Summary and Forecast.....	10
About CohnReznick's Public Companies Group	11

PREFACE

Compared to 2014, IPO activity in 2015 has been lagging and Q3 was no exception.

Market volatility triggered by international news from Greece and China for example, and from uncertainty on domestic interest rate policies, may have kept some investors on the sidelines.

Further contributing to the decreased number of IPOs is the continued availability of private capital. Private equity and strategic investors offer prospective acquisitions an attractive combination of financial and intellectual capital and without the costs or regulatory and reporting requirements associated with life as a public company.

“WE THINK BUSINESSES, THAT BELIEVE THE IPO TO BE THE MOST APPROPRIATE FORM OF CAPITAL, SHOULD CONTINUE TO EXPLORE IT AS AN OPTION AND PREPARE ACCORDINGLY.

Despite the lag in the number of IPOs, we believe that high quality deals will continue to rise to the top and, when they do, they will be recognized and rewarded by investors. In Q3 2015, average proceeds raised per middle market IPO increased to \$182 million from \$125 million in the prior year.

Market uncertainty may have eroded some investor and issuer confidence for the short term, but there seems to be continued interest when the right company prices an IPO. And for those companies, the IPO continues to be a viable source of capital.



Dom Esposito



Alex Castelli

We think businesses, that believe the IPO to be the most appropriate form of capital, should continue to explore it as an option and prepare accordingly. Once ready, a company can access the public markets when the timing makes most sense.

Today, global markets appear to be volatile. And volatility erodes confidence. Public equity capital transactions prefer a greater degree of stability. Therefore, if current market conditions persist, we are likely to continue to see fewer IPOs when compared to last year's record breaking levels.

We hope you find the contents of our Q3 Middle Market Equity Capital Report to be interesting and insightful.

A handwritten signature in dark ink, appearing to read "Dom Esposito".

Dom Esposito

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

A handwritten signature in dark ink, appearing to read "Alex Castelli".

Alex Castelli

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

HIGHLIGHTS



Broad Market Observations

- The number of IPOs in Q3 2015 decreased by 41% when compared to Q3 2014.
- IPO transaction activity through the first nine months of the year decreased by 34% year over year.
- If IPO activity continues at its current pace, the U.S. economy is projected to produce about 200 IPOs compared to 307 in 2014 and 255 in 2013.



Middle Market Observations

- In Q3, IPO activity in the middle market (companies with market caps between \$10 million and \$2 billion) dropped 53% versus prior year.
- Through the first nine months of 2015, middle market IPO activity decreased 37% year over year.
- Aggregate proceeds from middle market IPOs decreased to \$4.9 billion in Q3 2015 from \$7.1 billion in Q3 2014.
- Average proceeds per transaction increased to \$182 million in Q3 2015. When compared year over year—an increase of nearly 46%.



Industry Specific Observations

- IPO activity in the healthcare and life sciences sectors totaled 44% of all Q3 2015 IPOs.
- Technology sector IPOs dipped to three in Q3 2015, representing a decline of 50% when compared to Q3 2014.



Additional Observations

- Smaller IPOs (those raising \$50 million or less in proceeds) declined by 50%, decreasing to seven in Q3 2015 compared to 14 in Q3 2014.
- Follow-on transactions in the middle market decreased to 121 in Q3 2015 from 157 year over year—a 23% decline.
- From an industry perspective, healthcare and life sciences sectors combined tallied 48% of all middle market follow-on transactions.



Initial public offerings remain a viable option for growth oriented Healthcare and Life Sciences companies. Looking ahead, economic and market conditions will influence the timing and the projected pricing of an IPO or follow-on. In this kind of an environment, the role of the underwriter is critical.”

CRAIG GOLDING

COHNREZNICK PARTNER, TECHNOLOGY AND LIFE SCIENCES INDUSTRY PRACTICE

Q3 IPO ACTIVITY



“

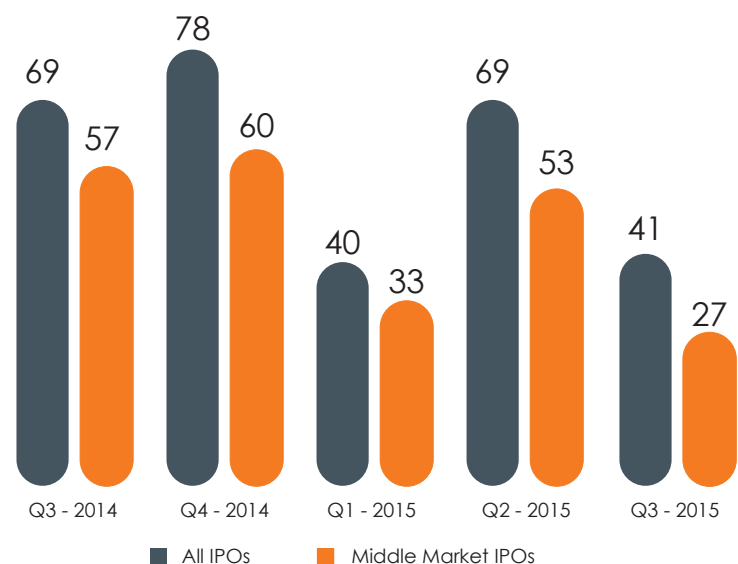
Despite continued growth in the Renewable Energy industry, Q3 brought a downturn in YieldCo stock price performance. Looking forward, we think that this downturn could lead to additional consolidation. Investors, like private equity and pension funds with longer investment strategies, may stand to benefit from today's market conditions as short-term investors, like hedge funds, exit their early positions. We expect to see the composition of the investor pool change as the public YieldCo market evolves.”

ANTON COHEN

COHNREZNICK PARTNER, RENEWABLE ENERGY INDUSTRY PRACTICE CO-NATIONAL DIRECTOR

Volatility in the financial markets exerted downward pressure on IPO activity in Q3 2015. The economic climates in Greece and China contributed to increased levels of market volatility as did the uncertainty of the Federal Reserve's timing of raising interest rates. We think that the continued access to private capital is detracting activity from the public markets. Financial and strategic investors seem willing to reward acquisitions with high valuations. In Q3, IPOs priced on U.S. exchanges dropped 41% over the same period in 2014. Through the first three quarters of 2015, 150 IPOs were issued compared to 229 through the first three quarters of 2014—a drop of 34%.

IPO Activity by Quarter



Source: Thomson Reuters

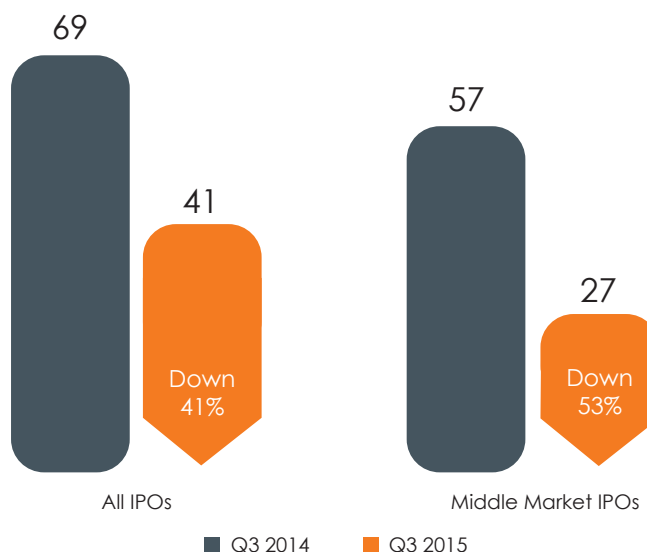
MIDDLE MARKET INSIGHTS

In the United States, the middle market is a powerful engine for growth. Comprised of nearly 200,000 businesses, the middle market equates to the fifth largest global economy with annual revenues in excess of \$10 trillion¹. In focusing on access to capital and transaction activity within the middle market, we gain greater insight into broader shifts in the U.S. economy. Increased access to capital and capital transactions activity in the middle market is a lever for increased health of the broader U.S. economy.

Unfortunately, Q3 IPO activity in the middle market dropped 53% over the same period in 2014. Twenty-seven middle market IPOs priced in Q3 2015, compared with 57 in Q3 2014. Year to date, 113 middle market IPOs were issued compared to 179 through the first three quarters of 2014.

Even amidst decreasing middle market IPO activity, the IPO should remain a viable consideration when companies need capital. If an IPO offers a business the best strategic solution to its capital needs, it may be best to get ready and, with the help of qualified advisors, evaluate the decision to go public based upon economic and market conditions.

Middle Market IPOs Decrease



Source: Thomson Reuters



Proceeds

While there were fewer middle market IPOs, the average transaction size increased by almost 46%, reinforcing the sense that investor demand remains strong despite current market volatility and uncertainty. In Q3 2015, the average proceeds raised per middle market IPO were \$182 million. While in Q3 2014, the average proceeds raised were \$125 million.

Middle Market Proceeds

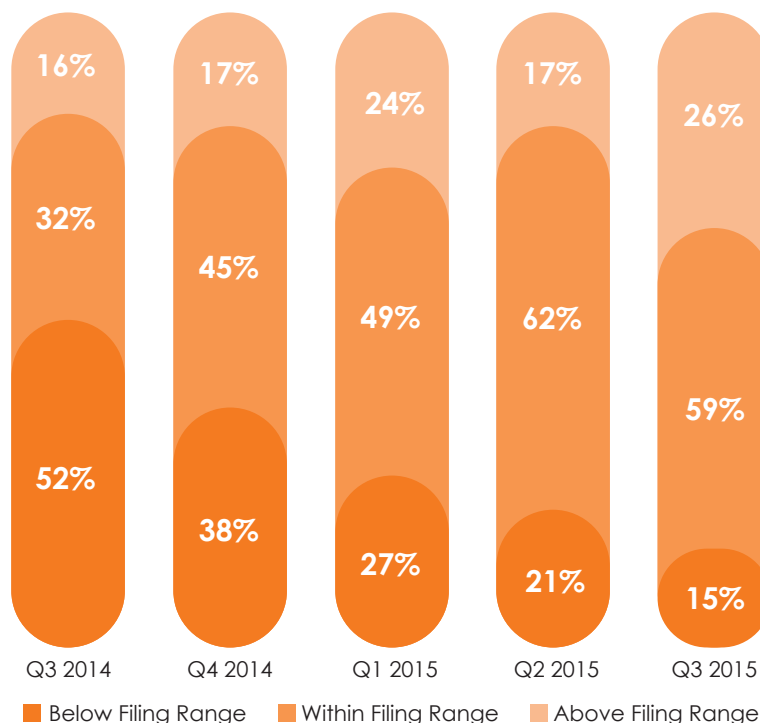
Middle Market Sub-Segments

	Q3 - 2014		Q3 - 2015	
	Number of Deals	Proceeds	Number of Deals	Proceeds
Nano Cap (\$10 - \$99 million)	6	\$ 134,000,000	4	\$ 72,000,000
Micro Cap (\$100 - \$499 million)	34	\$ 2,406,000,000	8	\$ 732,000,000
Small Cap (\$500 mil - \$2 billion)	17	\$ 4,595,000,000	15	\$ 4,122,000,000
TOTAL	57	\$ 7,135,000,000	27	\$ 4,926,000,000

Source: Thomson Reuters

¹National Center for the Middle Market

Middle Market Pricing vs. Initial Filing



Source: Thomson Reuters



Pricing

In Q3 2015, 85% of middle market IPOs priced at or above the initial filing range. In Q3 2014, only 48% priced at or above their filing range. The improvement in middle market pricing is good news for issuers who, all else equal, depend on raising a specific amount of proceeds from an offering. In this market, only higher quality issues are making their way to market, are warmly greeted by investors, and are therefore pricing at or above their initial filing range. There are several factors that influence pricing—economic conditions, market conditions, readiness of the company, timing, the right underwriters, and the right industry sector.



Smaller IPOs

Smaller IPOs (those raising \$50 million or less in proceeds) declined by 50%, decreasing to seven in Q3 2015 compared to 14 in Q3 2014 and 10 in 2013. Even though various components of the JOBS Act have helped stimulate access to capital, many smaller issuers still find the IPO process to be expensive and onerous. Current market conditions suggest that accessing private capital is potentially more efficient and equally, if not more, economically rewarding. Though too early to gauge its impact, the recently updated Regulation A, referred to as "Regulation A+," may help build a stronger bridge for smaller issuers who hope to access the public markets.

MIDDLE MARKET INDUSTRY INSIGHTS

Healthcare and life sciences IPO activity totalled 44% of all Q3 2015 IPOs signaling their continued confidence in the IPO as the right form of capital to support long development and regulatory approval processes.

Technology sector IPOs dipped to three in Q3 2015, representing a decline of 50% when compared to Q3 2014, reinforcing the indication that technology companies are seeking alternative sources of capital from private equity, venture capital and strategic investors.



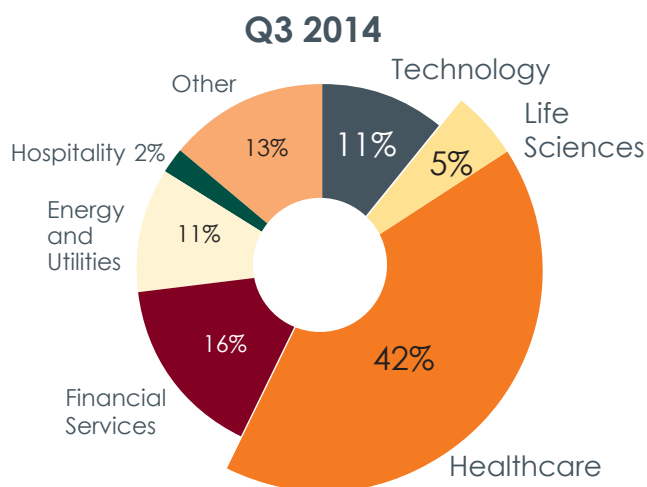
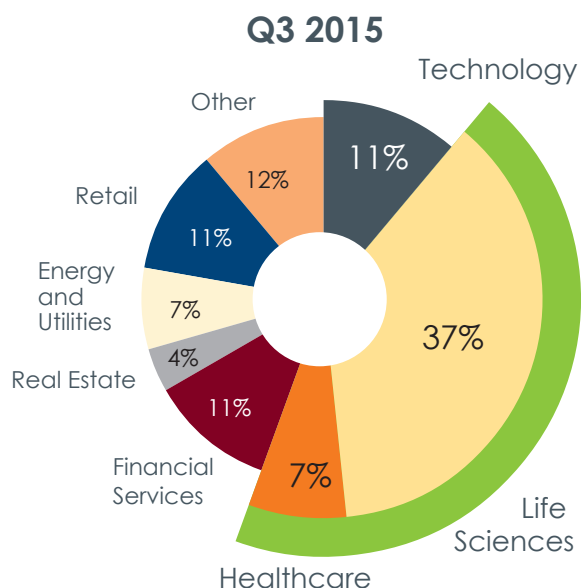
“

In terms of IPO activity, the Restaurant sector has been a steady performer since 2012. True, there were no Restaurant IPOs in Q3, but industry insiders indicate that five or more IPOs are rumored for 2016. In terms of valuations, the fast casual sub-segment has performed better than quick service restaurants and full service concepts.”

CINDY MCLOUGHLIN

COHNREZNICK PARTNER, HOSPITALITY INDUSTRY PRACTICE

Q3 Middle Market IPO 2014-2015 Comparison

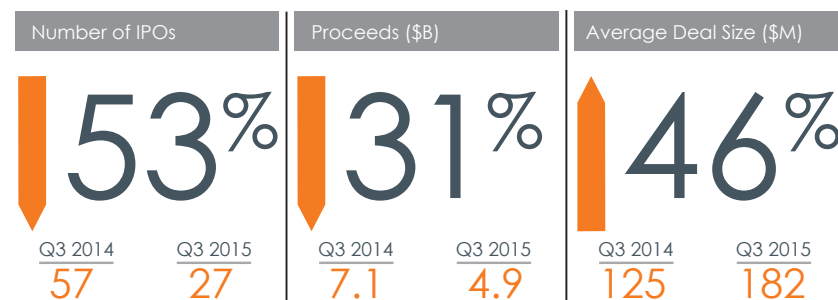


Source: Thomson Reuters

Middle Market Snapshot

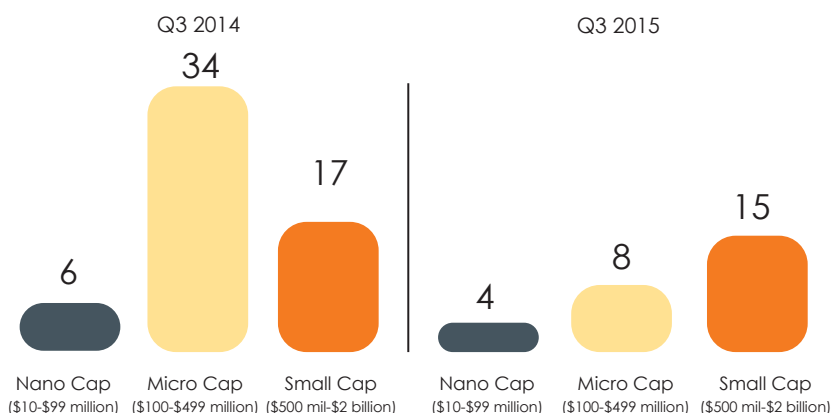
Analyzing Middle Market IPOs

CohnReznick's Middle Market Snapshot analyzes IPOs conducted by middle market companies—regardless of proceeds generated. CohnReznick defines the middle market as companies with \$10 million to \$2 billion in market capitalization post initial public offering.



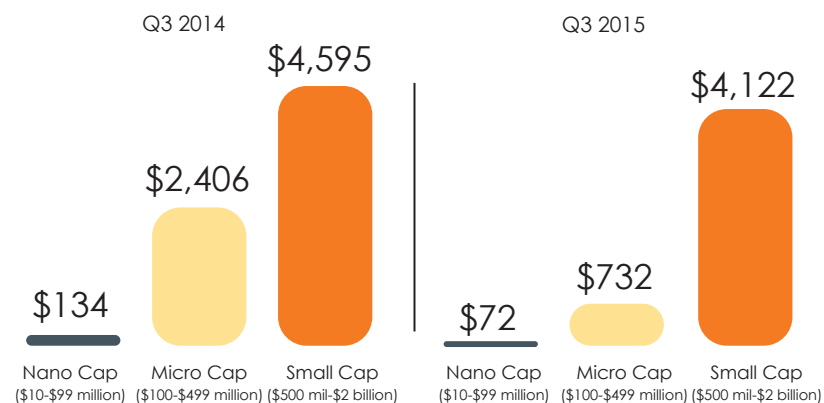
Middle Market IPO Activity

Middle market IPOs were down in Q3 2015, total proceeds decreased by 31%. Average proceeds per transaction increased by 46%.



Number of Middle Market IPOs by Sub-Segment

Micro-cap and small-cap IPOs represented 85% of middle market IPOs in Q3 2015.



Proceeds of Middle Market IPOs by Sub-Segment

Proceeds from micro cap IPOs showed a 70% decrease in Q3 2015 compared to Q3 2014 while proceeds from nano-cap IPOs declined 46%.

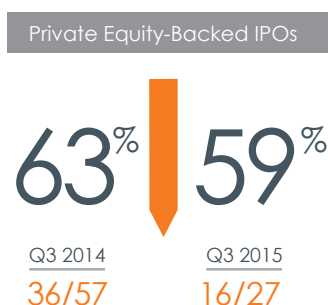
Companies Filing as EGCs

Filing as an Emerging Growth Company (EGC) helps middle market companies access the IPO on-ramp by utilizing the "Testing the Waters" and "Confidential Filing" provisions of the JOBS Act.



Private Equity-Backed IPOs

In Q3 2015, 59% of middle market IPOs were backed by private equity compared to 63% in Q3 2014.



Source: Thomson Reuters

MIDDLE MARKET FOLLOW-ON ACTIVITY

Middle Market Follow-Ons by Industry

Middle market follow-on activity decreased to 121 in Q3 2015 from 157 in Q3 2014. The 23% decrease is far smaller than the decrease of 53% in middle market IPO transactions for the same time periods.

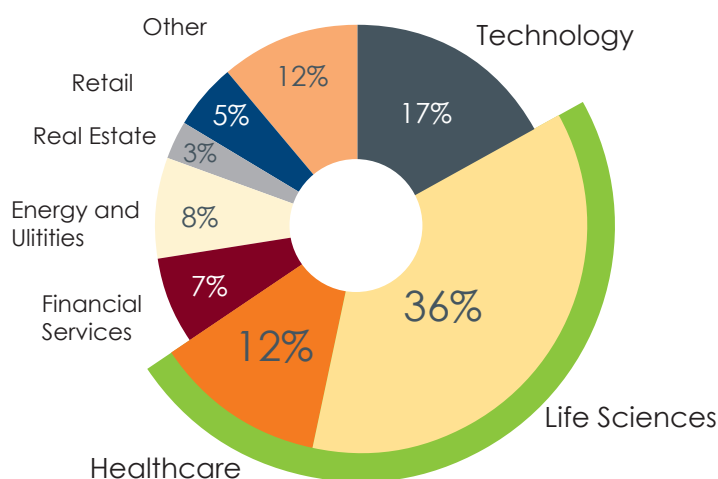
Average proceeds from middle market follow-on transactions in Q3 2015 were \$69 million (compared to \$64 million) year over year—an increase of 8%.



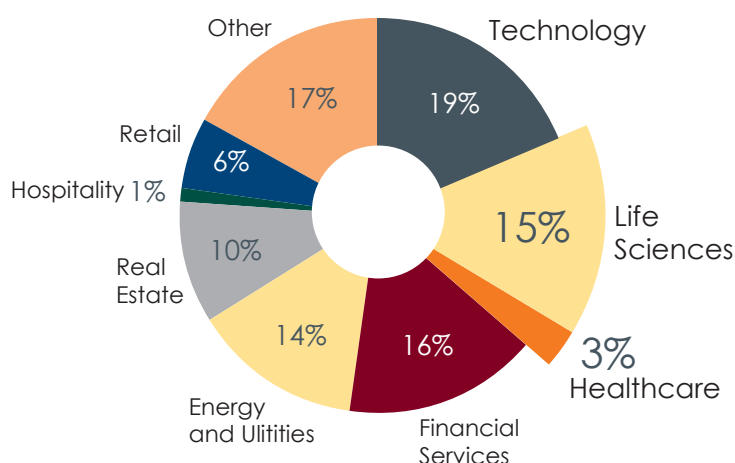
Follow-On Activity by Industry

Q3 2015 Healthcare and Life Sciences sectors follow-on activity both in absolute numbers and on a percentage basis increased year over year. In Q3 2015 there were 58 follow-on transactions up from 28 year over year. Healthcare and Life Sciences follow-ons represented 48% of all middle market follow-ons in Q3 2015, an increase from 18% in Q3 2014.

Q3 2015



Q3 2014



Follow-Ons by Middle Market Subsegment

Q3 - 2014

Q3 - 2015

	Number of Deals	Proceeds	Number of Deals	Proceeds
Nano Cap	63	\$ 501,000,000	40	\$ 326,000,000
Micro Cap	42	\$ 2,401,000,000	36	\$ 1,517,000,000
Small Cap	52	\$ 7,144,000,000	45	\$ 6,485,000,000
TOTAL	157	\$ 10,046,000,000	121	\$ 8,328,000,000

Source: Thomson Reuters

Which Banks Made the Middle Market List?

Twenty-seven different banks acted as bookrunner on at least one middle market IPO in Q3 2015 (27 middle market IPOs). The total number of IPOs reflected in the table below greatly exceeds the 27 IPOs because most deals involve more than one bookrunner.

INVESTMENT BANKER	NUMBER OF BOOKRUN IPOs	INVESTMENT BANKER	NUMBER OF BOOKRUN IPOs
Merrill Lynch Pierce Fenner & Smith	10	Raymond James & Associates Inc.	3
Credit Suisse Securities (USA) LLC	6	Barclays	2
Piper Jaffray Companies	6	BMO Capital Markets	2
Jefferies & Company Inc.	5	Cowen & Company	2
Morgan Stanley & Company	5	SunTrust Robinson Humphrey	2
Goldman Sachs & Company	4	UBS Investment Bank	2
JP Morgan & Company Inc.	3	Keefe Bruyette & Woods Inc.	2
RBC Capital Markets	3		
Twelve additional investment banks participated in at least one middle market IPO in Q3 2015.			

Source: Thomson Reuters

SUMMARY AND FORECAST

If economic and market conditions remain volatile, we are likely to continue to see a decreasing number of IPOs. Only those companies with the best case for becoming a public entity will be brought to market. With fewer companies pricing IPOs, and with continued interest from investors, the principles of supply and demand would suggest that valuations and proceeds raised will remain lofty. The continued availability of capital and competition for investments in the private market may draw even more companies away from the IPO as a source of capital. As we look forward, we see strengthening economic fundamentals continuing in the U.S. economy, and unless new global concerns arise, markets should stabilize. Market stabilization decreases volatility, increases confidence, and provides solid ground for increased IPO activity.

In the near term, the U.S. economy will navigate its way through a probable interest rate hike, potential turmoil relative to the spending plan to fund the federal government, which expires in December, and a presidential election in 2016. All of which are likely to make the end of 2015 and 2016 a very interesting time indeed.



“

Strategic investors continue to have access to significant amounts of capital and in many cases can leverage greater value from an acquisition. As such, they are in a better position to justify higher valuations and pay higher purchase prices. Even private equity and venture capital investors are finding it challenging to compete for deals. We think that middle market Technology companies that once considered the IPO as the source for the highest valuations are finding equal if not greater valuations in the private market. That's one of the major reasons for the fall-off in Technology sector IPOs.”

ALEX CASTELLI

COHNREZNICK PARTNER, TECHNOLOGY AND
LIFE SCIENCES INDUSTRY PRACTICE LEADER

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, Technology and Life Sciences Industry National Practice Leader
- **Anton Cohen**, CPA, Partner, Renewable Energy Industry Practice Co-National Director
- **Dom Esposito**, CPA, Partner
- **George Gallinger**, Principal, CohnReznick Advisory Group – Governance, Risk, and Compliance National Director
- **Craig Golding**, CPA, Partner, Technology and Life Sciences Industry Practice
- **Tim Kemper**, CPA, Partner, Renewable Energy Industry Practice Co-National Director
- **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, CohnReznick Advisory
- **Stephen Wyss**, CPA, Partner, Retail and Consumer Products Industry Practice

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

1212 Avenue of the Americas
New York, NY 10036
212-297-0400

www.cohnreznick.com



CohnReznick is an independent
member of Nexia International

CohnReznick LLP © 2015

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.