March 2010

# Private Equity, Public Exits

## March 2010 PE-backed IPO update

### Thirteen PE-backed deals priced in the first two months of the year, raising US$2.4b in proceeds

*Private Equity, Public Exits* is published monthly by Ernst & Young to provide insight and analysis on capital markets trends as they apply to the private equity-backed IPO market.

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January and February 2010 maintained much of the momentum in the IPO market that had been building over the prior two quarters, with 154 companies raising $22.1b on exchanges around the globe. While this represented a marked slowdown from the pace set in Q409, it nonetheless made for the busiest January on record, with 80 deals valued at $10.8b during the month, significantly more than the $124m raised during the same period in 2009. The first month of the year has historically been a slow one for new equity issuance, with investors and issuers alike winding down operations during the December holidays. February saw 74 deals valued at $11.3b, making it the best February since 2007.

According to Dealogic, issuers listing on Asia-Pacific exchanges accounted for the lion's share of activity, accounting for 71% of the total dollars raised over the period, followed by Europe, Middle East and Africa (EMEA) and the Americas, with 15% and 14%, respectively.

In the PE-backed space, thirteen deals priced during the two months, raising an aggregate $2.4b. January saw only three deals come to market, totaling $706m in gross proceeds, while February's pace was markedly higher, with ten IPOs valued at $1.7b. Both months represented the lowest monthly totals since last June, before the recent IPO resurgence — a potential indicator that the initial euphoria over the return of functional capital markets is beginning to conflict with pricing expectations.


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## Pricings are difficult, with investor scrutiny growing; secondary market trading mixed in a sideways couple of months for stocks

**Figure 1: January and February PE-backed IPOs**

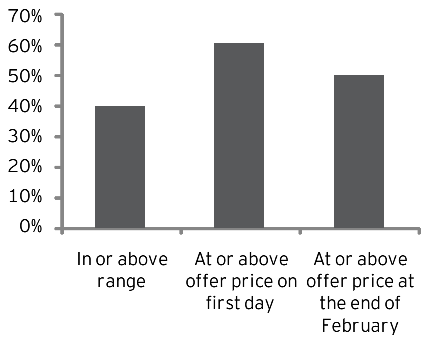
| Company | Exchange | Offer date | Net proceeds | Range | Offer price | First day close | February 26 close | Sponsor |
|---|---|---|---|---|---|---|---|---|
| Symetra Financial Corp | New York | 21-Jan-10 | $420 | $12.00 - $14.00 | $12.00 | $12.75 | $12.99 | Highfields, Vestar, JC Flowers |
| Medica France SA | Paris | 9-Feb-10 | $400 | $16.00 - $19.50 | $17.86 | $19.29 | $19.86 | BC Partners, AXA |
| International Mining Machinery | Hong Kong | 4-Feb-10 | $327 | $0.63 - $0.82 | $0.63 | $0.54 | $0.50 | Jordan Company LLC |
| Generac Holdings | New York | 10-Feb-10 | $244 | $15.00 - $17.00 | $13.00 | $12.84 | $13.43 | CCMP, Unitas |
| Ironwood Pharmaceuticals | Nasdaq | 2-Feb-10 | $216 | $14.00 - $16.00 | $11.25 | $11.65 | $13.00 | Polaris Venture Partners |
| Tiger Airways Singapore Pte Ltd | Singapore | 18-Jan-10 | $178 | $1.35 - $1.65 | $1.07 | $1.13 | $1.06 | Indigo Partners LLC |
| Graham Packaging | New York | 10-Feb-10 | $167 | $14.00 - $16.00 | $10.00 | $10.20 | $10.46 | Blackstone |
| QuinStreet | Nasdaq | 10-Feb-10 | $150 | $17.00 - $19.00 | $15.00 | $15.00 | $14.60 | Catterton Partners |
| Hathway Cable & Datacom | Bombay | 13-Feb-10 | $143 | $5.16 - $5.70 | $5.16 | $4.47 | $4.35 | ChrysCapital |
| Cellu Tissue | New York | 21-Jan-10 | $108 | $15.00 - $17.00 | $13.00 | $11.90 | $10.35 | Weston Presidio Capital |

Note: currency shown in US$.

*Source: Bloomberg; Dealogic; regulatory filings; includes operating company IPOs with proceeds over US$100m*

- The early months of 2010 have thus far favored smaller deals, with the average deal being 40% smaller than in 4Q09, at $185m.
- With $420m in proceeds, life insurance company Symetra Financial represents the largest sponsored IPO of 2010 to date. It was the Berkshire-backed company's second attempt at an IPO, after targeting a 2008 launch that was eventually withdrawn as the IPO market collapsed. The company priced at the low end of its expected range, and increased the offer size by 3.5m shares. Investors responded well to the revisions, and aftermarket trading took the company's shares up 6.25% on the first day — gains that the stock held through the end of the month.
- Pricing has been increasingly difficult over the past several months, and the first weeks of the new year were no exception, with 60% of sponsored new issues pricing below range, a significant increase from the 30% that did so during 4Q09. Underscoring the difficulty that new issues faced, only 60% closed out their first day above their offer price, despite the fact that many had cut the size of their offerings and reduced prices.
- January and February on the whole were difficult months for stocks, both for new issues and old. The S&P 500 only managed a 0.3% gain during the period, in the weakest trading since the equities market rally began early last year. Investors grappled with concerns over corporate profitability, proposed banking regulatory restrictions, the debt levels of Greece and monetary tightening in China and elsewhere.

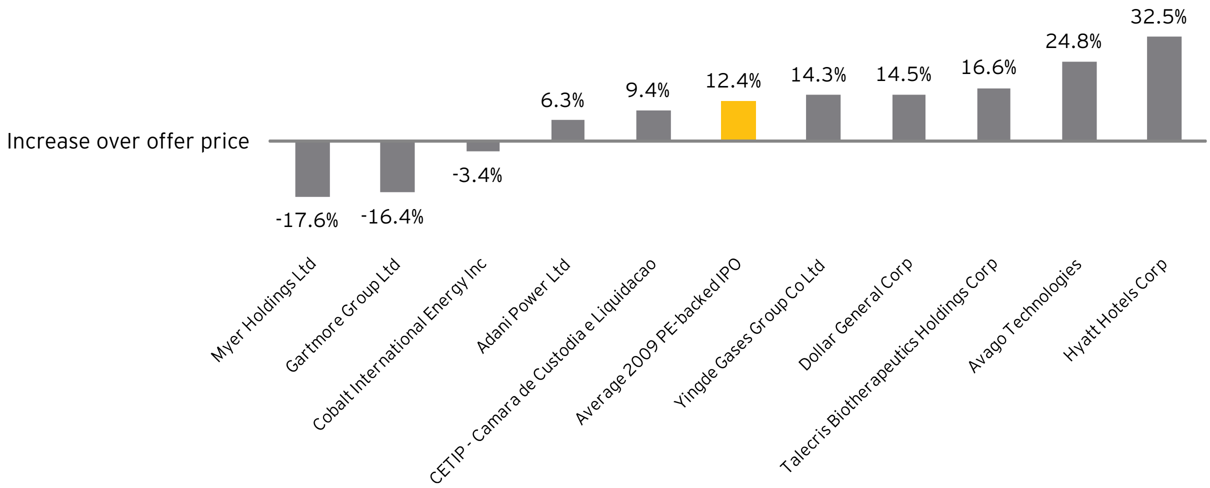
**Figure 2: Jan–Feb sponsored IPO aggregate pricing and performance**




*Source: Bloomberg, accessed 3–4 March 2010.*


## Update on 2009 sponsored IPOs; trading activity and market performance

### Figure 4: Top PE-backed deals, 2009




*Source: Dealogic; values as of 3 March 2010.*

- 2009 PE-backed deals are up an average of 12.4% from their offer prices, with many of the year's largest deals performing well. Goldman Sachs-backed Hyatt Hotels was up 32.5% through the early part of the year, and Avago Technologies, backed by KKR and Silver Lake, was up nearly 25% from its offering price.
- The 30 Americas-listed deals that priced in 2009 averaged 13.5% through the first two months of the year, down slightly from year-end.
- Asia Pacific-listed deals gained 10% on average, but also saw the greatest bifurcation between high and low performers. Nearly half of the region's PE-backed deals are currently underwater relative to offer price.
- EMEA deals were limited in number during 2009; only four sponsored companies priced IPOs on EMEA exchanges during the year, most of which have traded flat or lower since the offerings. Their performance was offset by the outperformance of a small issue from Apax, Israeli biopharmaceutical company D-Parm, which was up approximately 57% from its initial offering price.
- Other outperformers include Warburg-backed Bridgepoint Management,  one of the first deals of 2009, which was up nearly 70% from the IPO offer price. The company recently reported better-than-expected growth for 4Q09, including 49% growth in new student enrollment. The company operates in the education sector, an area of keen recent interest for private equity firms. Another Warburg-backed deal, China-based Lepu Medical, was recently trading up 58% from its offering price. The company's debut on the Chinext exchange was at a premium of more than double its offer price but has since given back some of those early gains.
- From a sector perspective, technology and chemicals have clearly outperformed their counterparts — both are up over 27% from their IPO pricing. In particular, technology has performed especially well; of the nine PE-backed companies in the sector to go public last year, eight are trading above their offering prices.

## February brings a spate of withdrawals as the market takes a pause

- The sell-off in public equities during January gave February deals significant headwinds with which to contend. February saw a number of withdrawals and postponements across the new issuance market and the PE-backed space in particular. Ultimately, six PE-backed companies withdrew or postponed their IPOs, representing an estimated $7b in new issuance. Observers say that investor wariness of corporate debt loads, combined with a sudden spike in market volatility as traders contended with the emerging Greek sovereign debt crisis, led to the announcements.

## Investors push back on dual tracks

- Another reason for the cooling reception to PE-backed deals is the growing investor frustration with dual-track sale processes. Over the past several months, PE firms have simultaneously been pursuing both M&A divestments and IPOs for their portfolio companies in an effort to maximize their realized value. The recent Pets-at-Home sale by Bridgepoint Capital was one such example. The company was said to be preparing for an IPO at the same time that it was conducting an auction process, which ultimately led to an acquisition by KKR for a reported $1.5b. While dual-tracks represent an attractive prospect from PE's perspective, reports indicate that many investors on the public side are beginning to feel discouraged. After having committed significant time and resources toward conducting due diligence on a pipeline deal, seeing a key asset sold through other means is frustrating, and some public side investors have commented that they're growing weary of being used as stalking horse bidders (i.e., initial favorable bids strategically solicited by the bankrupt company to prevent lowball offers). PE firms will need to be cognizant of these sentiments over the coming months as they market new deals and should assure potential investors that they are dealing in good faith.

## Pipeline remains robust, however, as companies forge ahead with new filings

- Despite the market turmoil, companies are moving ahead with new filings. For example, Providence Equity Partners announced that it was seeking an IPO for Kabel Deutschland, Germany's largest cable provider, after weeks of speculation that the company would be sold in a secondary buyout. If successful, the deal could represent the largest PE exit in more than two years.
- All in all, 13 PE-backed companies filed to go public in the first six weeks of 2010. Among them are health care software company Dynavox, backed by Vestar Capital Partners, which could raise $125m in a US listing; printing-ink company Flint Group, backed by CVC Capital Partners, which filed to list on the Frankfurt exchange; Chicago-based metals processor Ryerson, backed by Platinum Equity; and retailer Express, sponsored by Berkshire Partners and Greenbrier Equity Group. The successful launch of these offerings will be contingent upon fair pricing, a compelling story and investor willingness to scale up the risk spectrum amid clearly turbulent markets.

### Did you know?

Regulatory "hot buttons" vary by industry and geography. Companies considering going public should identify and address these hot buttons early to ensure smooth progress through the registration process.

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