



*SEC's Advisory Committee on Small and  
Emerging Companies – Panel Discussion*












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## Introduction

### Once Small Cap IPOs, Now Market Leaders

	IPO Date	IPO Proceeds (\$ million)	Inflation Adjusted IPO Proceeds (\$ million)	% Change In Price Since IPO	Market Capitalization (\$ billion)
	Oct-71	\$8.8	\$50.0	9,346%	\$112.9
	Sep-81	\$72.0	\$180.5	207,614%	\$104.1
	Jun-83	\$42.3	\$99.2	29,503%	\$83.6
	Mar-86	\$58.8	\$126.2	44,403%	\$259.5
	Jul-87	\$11.0	\$22.6	15,933%	\$60.4
	Apr-89	\$37.0	\$70.2	1,801%	\$9.3
	Sep-91	\$45.0	\$76.6	8,907%	\$53.5
	Jan-92	\$23.5	\$39.7	5,031%	\$20.3
	Jun-92	\$35.7	\$59.5	13,404%	\$53.8
	Apr-96	\$33.8	\$50.5	5,117%	\$28.7
	May-97	\$54.0	\$78.8	19,624%	\$135.2

- The United States has been the single greatest market for capital formation over the past century
- Market and regulatory framework has enabled countless companies to fund growth by utilizing the equity capital markets
- As a result, countless growth-oriented companies emerged as the global market leaders

Note: Prices as of September 6, 2013. Inflation adjustment calculation based on July 2013 CPI.



*Over the Past Decade, the IPO Engine that Fueled  
America's Global Economic Dominance Has Slowed*

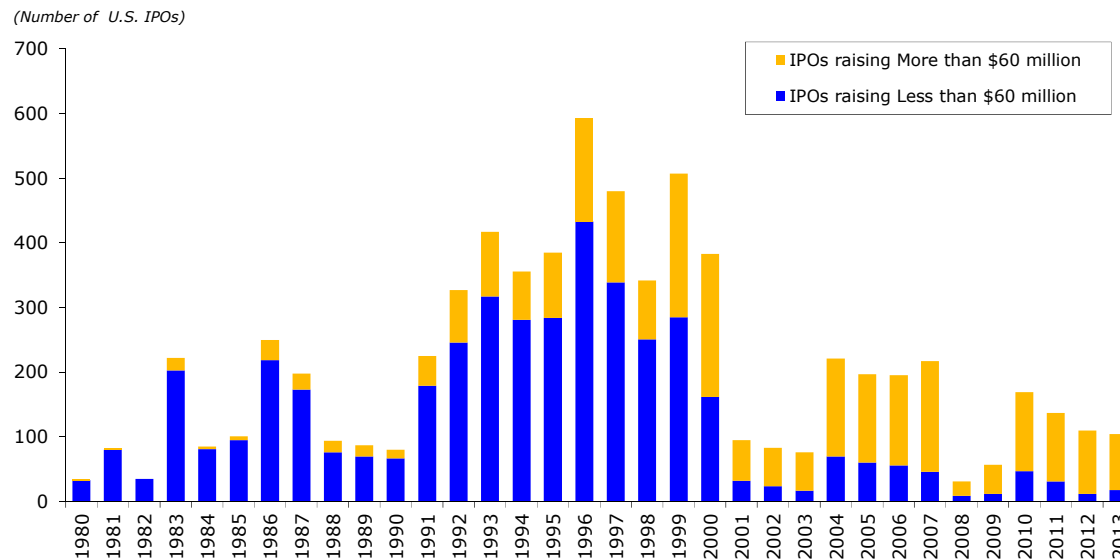
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- Change in market structure for small capitalization companies
- Increased listing requirements for public companies
- Changes in research ecosystem



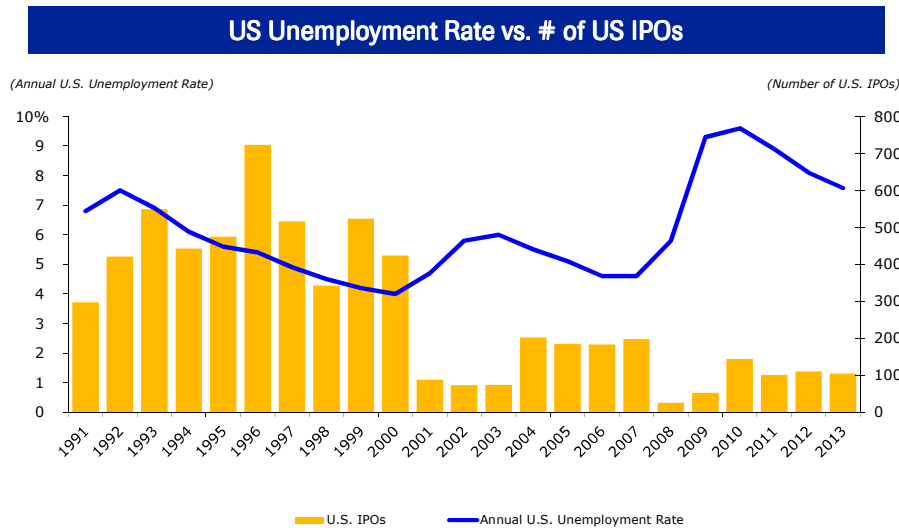
## Significant Decline in Small IPOs on US Exchanges

- Significant decline in total and small IPOs on US exchanges
- New company price appreciation now going to private equity vs. public market investors (401k, pensions, etc.)
- Negative impact on job growth



Source: ECM Analytics as of September 6, 2013. IPO data excludes REITs, closed-end funds, SPACs, LPs and transactions with <\$5 million in proceeds

## *A Depressed IPO Market Contributes to Increased Unemployment*



- Small businesses are important job creators in our economy
- Historically, US unemployment has risen during periods coinciding with depressed IPO markets
- According to a 2011 report by IHS Global Insight, 92% of a company’s job growth occurs after it goes public

Source: ECM Analytics, Grant Thornton and US Department of Labor.  
IPO data excludes REITs, closed-end funds, SPACs, LPs and transactions with <\$5 million in proceeds.



## *Job Growth Post-IPO*

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- According to a report by the Kauffman Foundation:<sup>1</sup>
  - From the June 1996 - December 2010, IPOs created **2.3 million jobs** (+45% from pre-IPO employment levels)
  - Small company IPOs<sup>2</sup> created **1 million jobs** (+156% from pre-IPO employment levels) during the same period
  - Assuming IPO volume per year during the 1980-2000 period had been maintained during the 2001-2011 period, an estimated **1.9 million jobs** would have been created

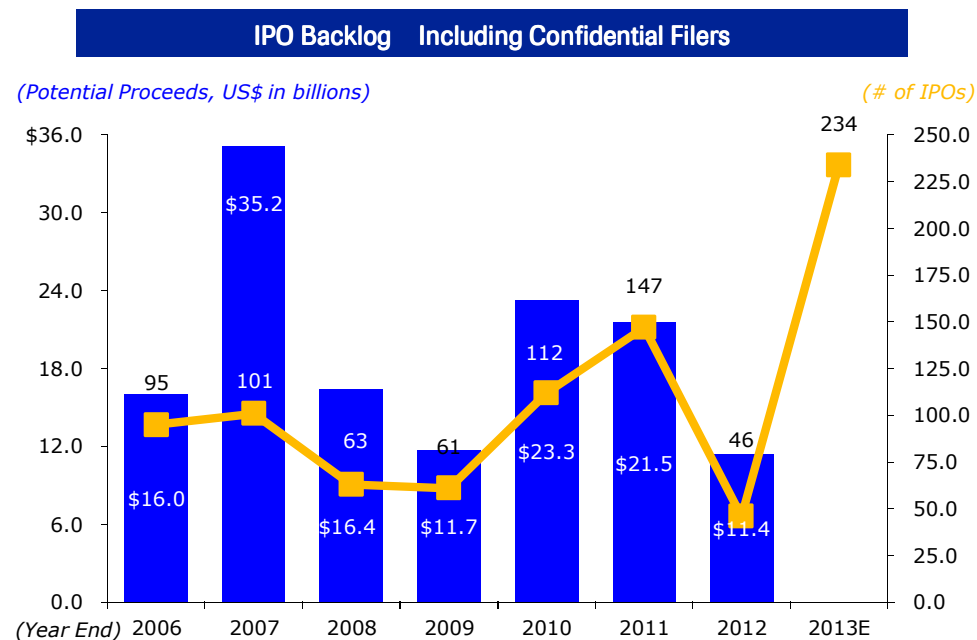
<sup>1</sup> Kauffman Foundation, "Post-IPO Employment and Revenue Growth for U.S. IPOs, June 1996-2010," May 2012

<sup>2</sup> Kauffman Foundation's definition of Emerging Growth Companies differs from that of the JOBS Act. To avoid confusion in this presentation, we refer to Kauffman's definition of Emerging Growth Companies as "small company".




## JOBS Act – Positive Impact on Capital Formation

- The number of sub-\$250 million market capitalization companies that have gone public this year exceed the total for 2012 (39 vs. 34)<sup>1</sup>
- With an estimated 234 companies in the IPO backlog (including confidential filers)<sup>2</sup>, this year could see the most active IPO calendar in recent years



<sup>1</sup> ECM Analytics. IPO data excludes REITs, closed-end funds, SPACs, LPs and transactions with <\$5 million in proceeds.

<sup>2</sup> Based on Renaissance Capital Private Company Watchlist as of September 6, 2013.



## *JOBS Act – Who is Benefitting?*

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**JOBS Act achieved a balance between capital formation and investor protection**

- Companies
  - Total \$ raised for EGCs (all sectors): **\$16.1 billion**
  - Total \$ raised for EGCs (biotech): **\$2.5 billion**
- Biotech industry and their targeted patients, but it is still small relative to our needs
  - Helped to create a complementary source of financing to NIH funding
  - IPOs can open up additional funding for cancer research and orphan drug research – potential to grow exponentially
  - **\$2.5 billion** raised by 31 EGC biotechs under the JOBS Act vs. **\$30.9 billion** in NIH funding across 235 research/disease areas<sup>1</sup>

Note: Dealogic, ECM Analytics. IPO stats refer to the period April 1, 2012-September 6, 2013. Figures include IPOs with proceeds above \$10 million and exclude REITs, closed-end funds, unit offerings, BDCs and BCCs.

<sup>1</sup> NIH, 2012 figures





## *JOBS Act – Who is Benefitting? (cont'd)*

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### Criticisms of the JOBS Act have been unfounded

- Individual and institutional investors
  - Aftermarket performance: +64.4% average price appreciation for EGC IPOs vs. +26.2% for non-EGC IPOs<sup>1</sup>
  - Pensions are the largest investors in private equity<sup>2</sup>; allocations have risen to an estimated 12.7% of total assets<sup>3</sup>
  - JOBS Act has enabled pensions to realize increased value in their private equity investments

Note: Dealogic, ECM Analytics. IPO stats refer to the period April 1, 2012-September 6, 2013. Figures include IPOs with proceeds above \$10 million and exclude REITs, closed-end funds, unit offerings, BDCs and BCCs.

<sup>1</sup> Offer price to current price performance.

<sup>2</sup> Private Equity Growth Capital Council, "The Interdependence of Pension Security and Private Equity," April 8, 2013

<sup>3</sup> Wall Street Journal, "Pensions Bet Big With Private Equity," January 25, 2013



## *Comments from Selected EGC Cowen Clients*

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**On job growth:** “The additional funding provided from the IPO will allow (our company) to aggressively increase our internal workforce by 20-25% over the next 12-18 months. The majority of our new additions will be well-educated and/or highly skilled permanent employees.”

“The IPO directly correlated with our hiring plans. We are moving aggressively to hire folks against a broader agenda as our financial picture/horizon has changed due to the IPO.”

**On the benefits of being a public company:**

“(The IPO provided us with a) longer runway to be successful with less time spent on fundraising to a super near-term/artificial inflection (point) and more time running the company. With success comes greater access to capital in a less dilutive manner and ability to return value to shareholders in a much more liquid fashion. Perhaps most important to me and my management team is that we are now able to focus on a slightly longer horizon, allowing for a more thoughtful company build strategy.”

“Without the IPO, we certainly would have had to postpone our Phase 3 clinical trial until we had raised a potentially dilutive round of venture financing or had sold (our company).”

**On the challenges of being a public company:**

“For a small cap public company, the largest concern is building investor interest and maintaining liquidity in the stock. This is a constant and continuous effort, requiring significant attention of the company’s senior management team.”

“In general, the challenges and concerns center around having the proper resources to ensure proper governance and compliance (as a public company).”



## *Small Companies Still Have Challenges Raising Equity Capital*

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- Improving trading liquidity for small cap stocks is an essential element in increasing capital formation
- Lack of research sponsorship and difficult market structure remain as the biggest impediments to fundamental trading liquidity
- Smaller companies still face costly regulatory burdens when it comes to listing publicly
- Certain other recommendations in the JOBS Act have not been implemented for private companies
- JOBS Act does not apply to small companies that are already public

## Challenges Faced as a Small Cap Public Company

### Addressed by JOBS Act

JOBS Act made progress in these areas. However, more work needs to be done.



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Aspects have not been fully adopted by the marketplace, limiting the full benefit of the JOBS Act to be realized by EGCs and investors.



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- Scaled regulatory requirements for small cap companies
- Access to capital under Reg A and Reg A+
- Regulatory restrictions, a consequence of the Global Research Settlement, for small capitalization companies
  - Pre-IPO research
  - No blackout period for IPO research
  - Increased communication between research analysts and investment bankers, while preserving appropriate safeguards
- **Many of the same issues apply to existing small cap public companies**

## Trading Liquidity - Essential for Capital Formation

These are not just institutional investor issues

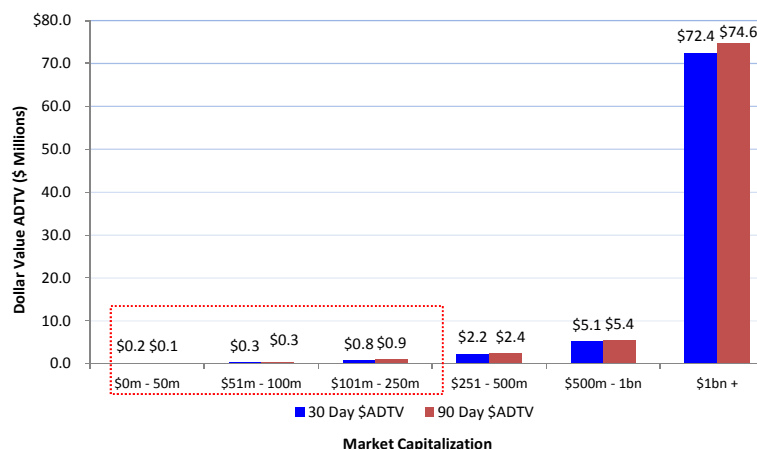
In fact, it is *individual investors* who own the majority of small cap stocks

- Small cap companies typically have lower institutional ownership
  - Difficult to build or exit a position at a desired value
  - Lower liquidity and average daily trading volume (ADTV)
- Market valuation and liquidity a key consideration when determining a company's ability to raise capital as well as the amount and cost
- Liquid stocks can be valuable currency to fund acquisitions, employee compensation or recruitment

**Institutional & Individual Ownership All Major US Exchanges**

Bucket	Mkt Cap Range	Median	
		Market Cap	Individual Ownership
1	\$0m - 50m	\$26.6	10.9 %
2	\$51m - 100m	73.1	19.9
3	\$101m - 250m	166.6	31.3
4	\$251 - 500m	344.0	43.7
5	\$500m - 1bn	708.3	62.4
6	\$1bn +	3,244.7	83.5

**NASDAQ Dollar Value ADTV (\$ Mil.)**

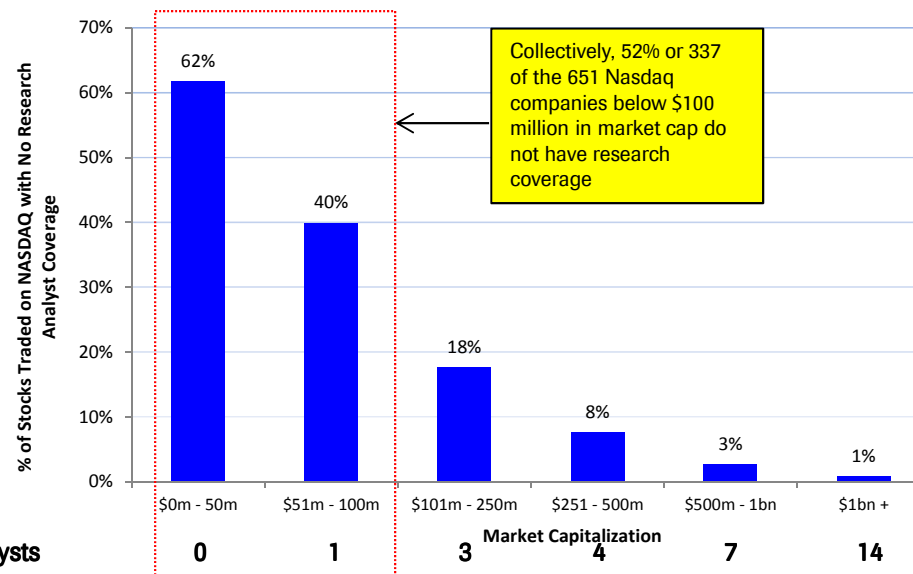


\* Source: Bloomberg & CapitalIQ as of September 6, 2013.  
[www.cowen.com](http://www.cowen.com)

## Lack of Sponsorship Among Small Cap Public Companies

- Economic model of the majority of investment banks built around larger market capitalization companies
- Smaller cap companies generally lack sufficient research coverage
- Little or no research coverage generally corresponds with lower stock liquidity

**% of Nasdaq Companies Without Research Analyst Coverage**



Median # of analysts

\* Source: CapitalIQ, as of September 6, 2013



## *Conclusion*

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- The JOBS Act has had a positive impact on small company capital formation for EGCs, which is leading to increased job growth
- The JOBS Act has demonstrated that well crafted legislation and regulation can balance the dual needs of fostering increased capital formation and maintaining investor protection
- There are additional steps to be taken to further promote capital formation for all small capitalization companies that will benefit the dual mandate of promoting job growth and protecting investors
- Now is the time to move these improvements forward