

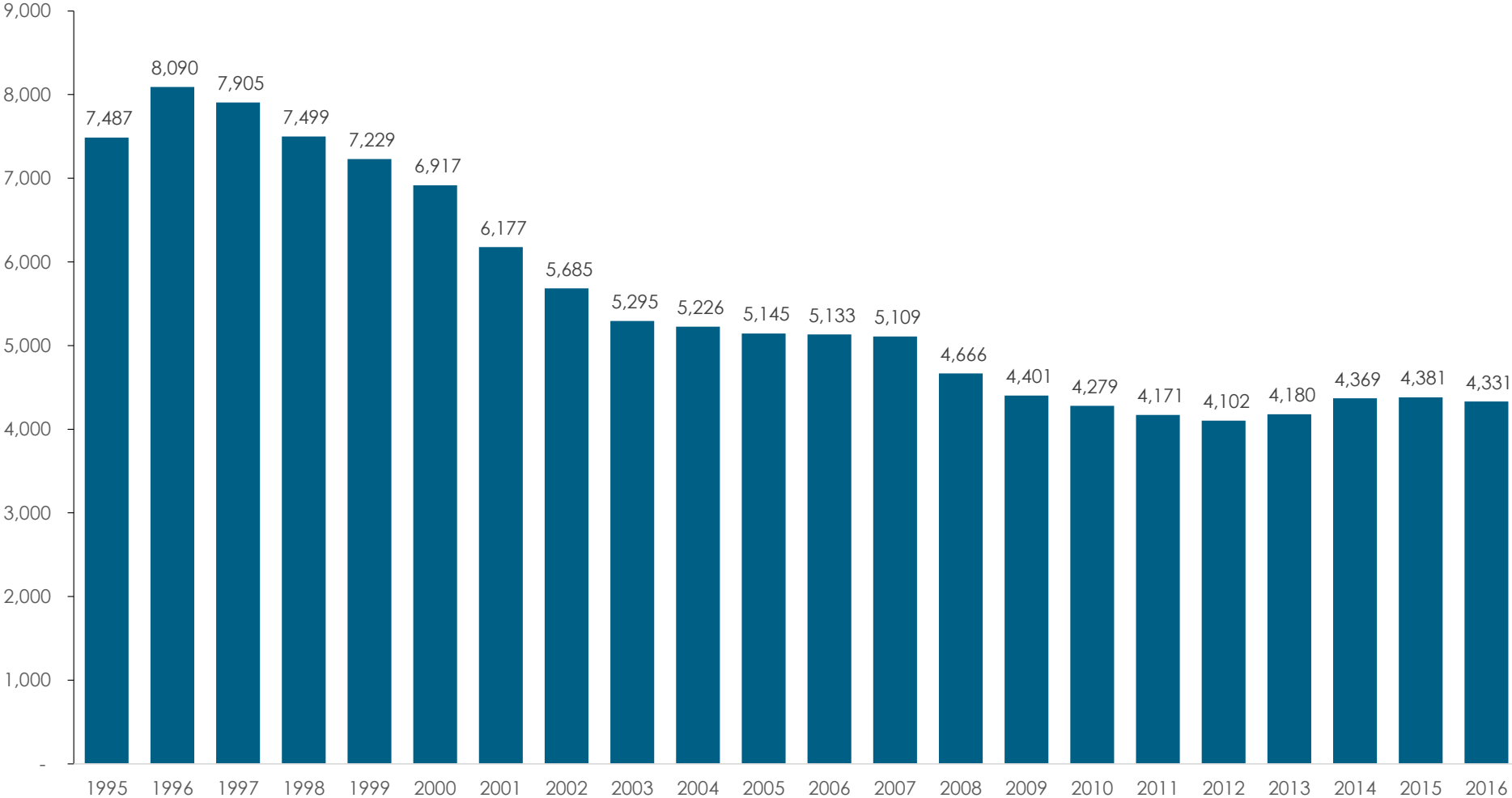


WHY HAVE WE SEEN A SLOWDOWN IN IPOS AND WHAT COULD DRIVE AN INCREASE?

May 10, 2017

The Number of Public Companies Has Declined by Close to 50%

Number of Public Companies

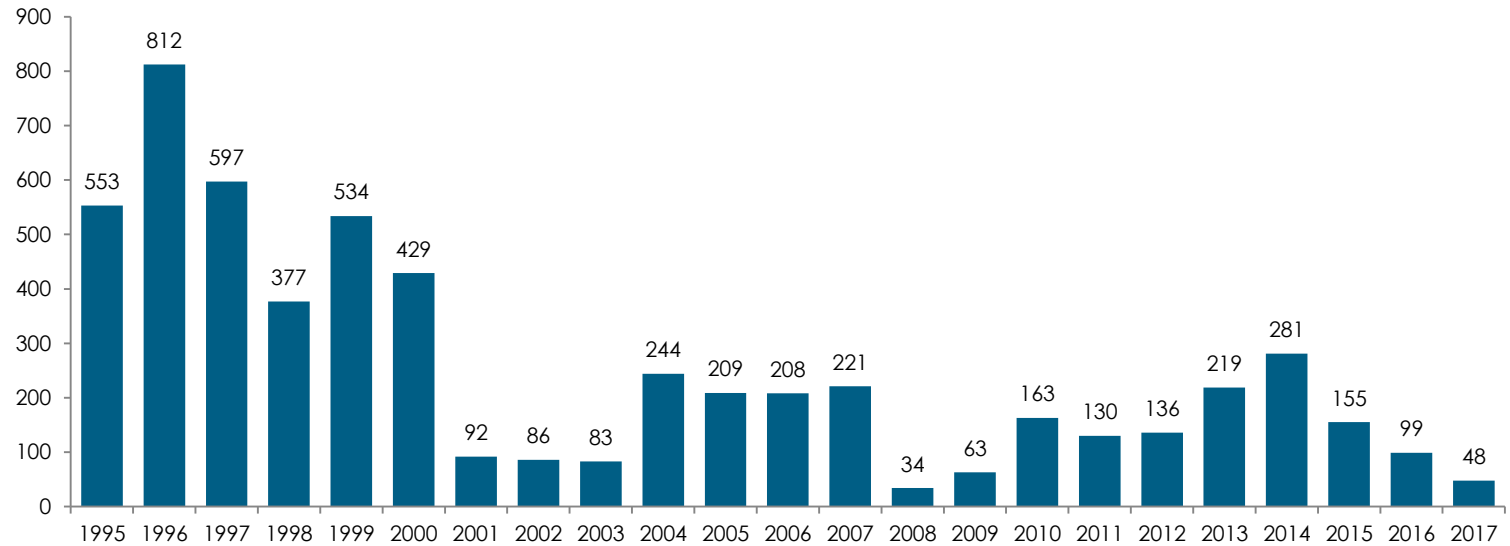


Source: World Bank.
Note: Includes SEC registered companies on a U.S. public exchange.

IPO Trends

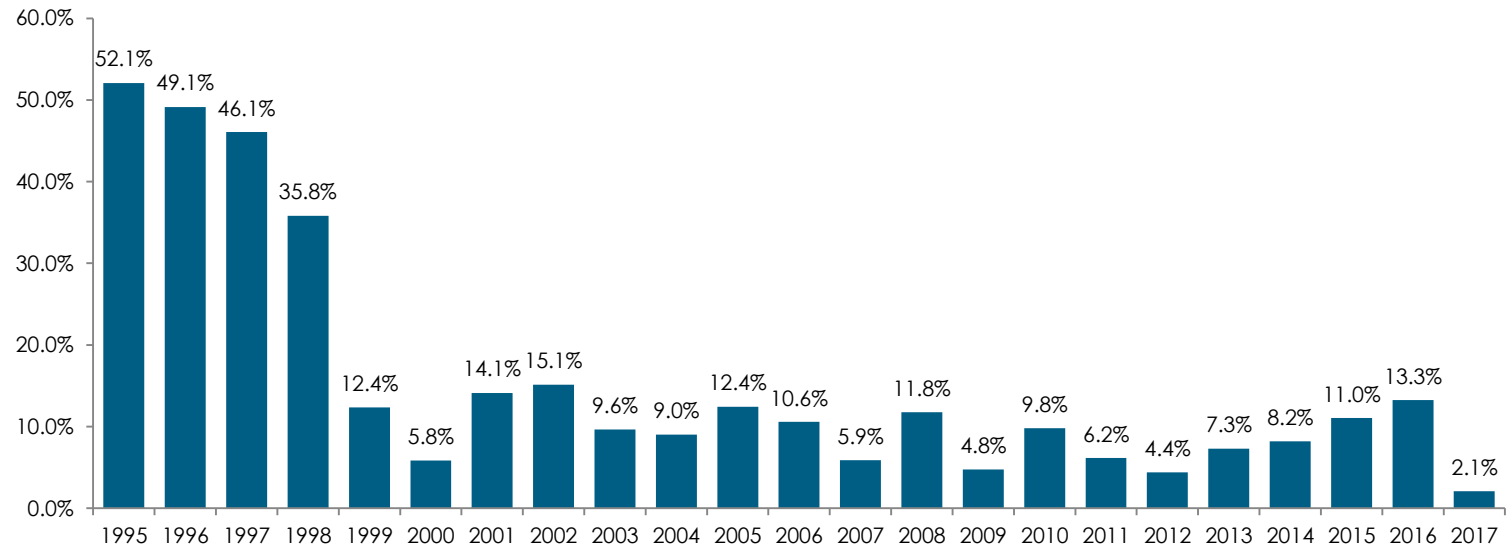
Number of IPOs

The number of IPOs has declined materially from their pace prior to 2000



IPOs Less Than \$100 Million Market Cap as a % of Total IPOs

Small cap has become a smaller percentage of total IPOs



Source: Dealogic.

Note: Includes SEC registered IPOs. Excludes BCCs, SPACs and closed end funds.

Factors to Consider

- Rise of private equity
- Regulatory environment
 - The JOBS Act has been a homerun for emerging growth company IPOs
 - Stifling regulatory environment
 - Expense burden of being public
- Costs / requirements of being a public company
 - Time to liquidity
 - Market risks

What is Needed for a Favorable IPO Market?

- A healthy IPO market requires a confluence of:
 - Favorable Market Trends and Valuation Levels
 - Favorable Regulatory Environment
 - Post Deal Sponsorship
 - Getting public is half the battle
 - Research support is essential to provide information flow to investors
 - Trading support is essential to provide liquidity to investors, particularly for illiquid small cap companies
 - As of 2012, nearly 29% of exchange listed companies had no meaningful research coverage
 - This is most concentrated in sub \$250 million market cap companies, where the lack of coverage is north of 50%

Issues to Consider to Make Public Markets More Attractive

- JOBS Act
 - Major positive for emerging growth companies
 - Limited evidence to support that Regulation A offerings are gaining traction
 - Based on our findings, there have been 171 Regulation A offerings filed⁽¹⁾
 - Based on our findings, companies that have raised public capital through a Regulation A offering have not developed a robust trading market for their stocks on U.S. public exchanges
- Sponsorship post deal – Essential to the success of an IPO
 - Role of sell side research continues to be eroded
 - More junior talent
 - Restricted roles on underwritings
 - More short term focus
 - Regulations (current/pending) are damaging the model for the firms that focus on small/mid cap companies
 - Glass-Steagall
 - Decimalization
 - Global settlement
 - Tying
 - Desk commentary
 - MiFID
 - Regulatory burden is impeding information flow

(1) Source: Morrison I Foerster. Data through December 2016.

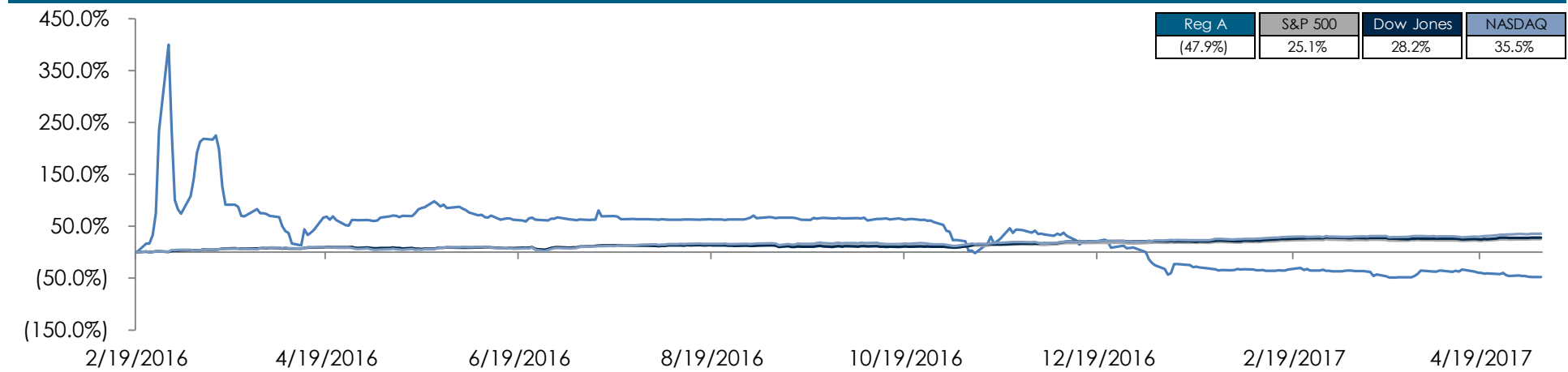
Regulation A Company Example

2016
\$17 Million
Regulation A Offering

- This Company completed a \$17.0 million capital raise through a Regulation A offering
- The Company's shares launched and began to trade on a public exchange
- A search of Regulation A companies discloses this Company as one of the most successful in developing an active trading market for its stock in U.S. public markets

	Reg A Company	Comp Group ⁽¹⁾
Ticker	---	---
Pricing Date	---	---
Offer Price	\$12.00	\$15.00
Market Cap (\$mm)	270.8	255.5
Offering Method	Regulation A	Traditional IPO
% Change Price Offer / Current	(47.9%)	24.8%
Research	NA	5
ADTV Since Pricing	6,899.7	106,628.2

Price Performance Since Offering



Source: FactSet.

Note: Price performance as of 5/8/17.

(1) Includes the median of 35 U.S. companies that completed an IPO since 2015 with a market cap between \$200 million and \$350 million.

Key Takeaways

The mission of the SEC is to protect investors, maintain fair, orderly and efficient markets and facilitate capital formation

- Suggested areas of focus:
 - **“Protect Investors”**
 - Decline of equity research platforms and lack of small cap coverage is not a positive for investors or small/mid cap IPOs
 - **“Fair, Orderly & Efficient Markets”**
 - Tying is rampant – which, is illegal and anti-competitive
 - Larger lenders continue to gain share at the expense of firms that are dedicated to small and mid cap companies
 - Continued concentration of market share in the allocation of capital will ultimately limit the ability of smaller investors to participate
 - **“Capital Formation”**
 - JOBS Act has been great
 - Unsure Regulation A will create “successful” public companies
 - Continued efficiency and cost improvements are needed

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