First Quarter 2001 IPO Market Review - Bear Market Drives IPOs into Hibernation

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Further deterioration in the capital markets amidst growing concern about the health of the U.S. and global economy resulted in a dismal start to the 2001 IPO market.

The first quarter of 2001 saw just 20 IPOs with gross proceeds of $8.21 billion. Moreover, almost 85% of the proceeds came from just three offerings: Agere Systems Inc. ($3.60 billion), KPMG Consulting, Inc. ($2.02 billion) and the Chinese oil and gas exploration company, CNOOC, Ltd. ($1.26 billion). In comparison, the first quarter of 2000 produced a staggering 142 IPOs with gross proceeds of $32.15 billion.

There has also been a reduction in the number of companies in registration as withdrawals continue to exceed new filings. Completed IPOs trailed the number of withdrawals every week during the first quarter. There were 78 withdrawn IPOs in the first quarter of 2001 compared to 21 in the first quarter of 2000

Many of this year’s IPOs bear a strong resemblance to the IPOs of late 2000. In the fourth quarter, it was often necessary to reduce the filing range and accept a deeply discounted price to come to market. Assisted by lower pricing levels, the average IPO in the first quarter closed up 8% on its first trading day, and only one company closed below its offer price on its first day.

Aftermarket performance, however, mirrored the broader market indices as the average IPO declined 8% by quarter end. Shining stars amid the general gloom were Williams Energy Partners L.P. (up 40%) and Oil States International, Inc. (up 25%).

The decline in the Nasdaq (down 64% from its peak through March 31) is the largest loss any major American index has suffered since the Depression. This has helped dampen business and consumer confidence and slow the economy. With the Nasdaq at 2,470 at the start of the year, some analysts were predicting the Nasdaq needed to return to the 3,000 level to provide the foundation for recovery of the IPO market. Instead, the Nasdaq has continued to decline as economic concerns and weak corporate earnings have trumped three interest rate cuts by the Fed. With the Nasdaq now under 1,800 - but many prices still high by historical price/earnings ratios - there is little expectation that the trickle of IPOs will heat up in the near future.

Although the giddy valuations of 1999 and much of 2000 for technology companies are unlikely to return anytime soon, IPOs remain possible for companies with experienced management, solid business plans, superior products or market positions and strong growth and earnings prospects. Whether such companies would choose to go public in the current environment is another question.

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Notes on Data: Hale and Dorr LLP compiled all data in this review unless otherwise noted. Offerings by REITs, bank conversions and closed-end investment trusts are excluded. Offering proceeds exclude proceeds from exercise of underwriters' over-allotment options, if applicable. The data is collected from various sources, including IPO.com, IPOCentral.com, SEC filings and the Washington Service Bureau.

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