Internet and Tech Stocks Drive First Quarter 2000 IPO Market

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Despite considerable stock market turbulence towards the end of the quarter, the IPO market experienced an active three months with 142 IPOs raising gross proceeds of $32.15 billion. This level of activity compares favorably to the first quarter of 1999, which saw 70 companies come to market raising gross proceeds of $10.82 billion.

The year began slowly, with only 21 IPOs in January. As the market picked up pace from the holiday break, the number of offerings and proceeds increased:

Month	**Total**	**Proceeds (millions)**
January	21	4,085.6
February	55	8,673.0
March	66	19,390.1
First Quarter 2000	**142**	**32,148.8**

Internet-related company IPOs continued to drive the market, accounting for 86 of the 142 IPOs (60%) in the first quarter of 2000 compared to 26 of the 70 IPOs (37%) in the first quarter of 1999. However, Internet-related IPOs represented only 32% of total IPO dollar volume, due to an average deal size of $118.0 million compared to an average deal size of $392.9 million for non-Internet IPOs:

	Internet Related		**Non-Internet Related**	
Month	**Number**	**Proceeds (millions)**	**Number**	**Proceeds (millions)**

January	8	791.7	13	3,294.0
February	38	3,933.4	17	4,739.6
March	40	5,422.6	26	13,967.6
Total	***86***	**10,147.6**	***56***	***22,001.2***
Average		**118.0**		**392.9**

Foreign Offerings Surge

Of the 142 IPOs in the first quarter, 30 were by foreign companies. Foreign company IPOs generated gross proceeds of $16.08 billion in the first quarter, including the $5.23 billion offering by Infineon Technologies AG (the German semiconductor company), the largest global technology IPO in history. The whole of 1999 only generated 57 foreign IPOs with gross proceeds of $33.70 billion.

Crayfish Co., Ltd., a Japanese Internet services firm providing e-mail services to small and mid-sized Japanese businesses, was an example of the amount of interest in foreign offerings. Initially planning to float 4.35 million American Depositary Receipt (ADR) shares at a range of $13 to $15, the underwriters eventually priced the deal at $24.50. Even then, the company's share price rocketed 414% on its first day of trading, for the tenth largest first day percentage gain in history.

The trend of foreign offerings on the U.S. markets is likely to continue because overseas markets are still developing and trail the U.S. in technological advances and liquidity. Foreign companies have also noticed the favorable valuations only available to Nasdaq tech stocks until very recently.

First Day Gains Impressive

While the first-quarter IPO market was more selective than during most of 1999, especially for Internet-related offerings, the average IPO still advanced 93% from its offer price on its first day of trading. The average Internet-related IPO achieved a first day gain of 112% from its offer price, compared to a 64% increase for non-Internet related companies. Interestingly enough, the average Internet-related IPO in 1999 closed only 90% above its offering price on its opening day.

The most impressive first day gainers in the quarter were webMethods, Inc. (508%), Crayfish Co., Ltd. (414%), Avanex Corporation (378%) and Selectica, Inc. (371%). 2000 IPOs accounted for eight of the all time top 30 first day percentage gains at the end of the quarter.

Overall, 121 IPOs closed up on their first day, with 52 companies experiencing a first day gain of 100% or more, while 15 dropped below their offer price.

Quarter-End Winners and Losers

The market turmoil did, however, take its toll on new entrants to the market as the quarter progressed and it became commonplace for new issues to weaken significantly in the aftermarket. The once highly touted offerings of Buy.com and Pets.com highlighted this pattern and reinforced investor skepticism in business-to-consumer stocks.

- Buy.com, a multi-category Internet superstore selling computers, software, electronic devices, books, videos, music and games, priced at $13 (above its filing range of $10-$12) and achieved a most respectable first day gain of 93%. Since then, the stock has been in steady decline and ended the quarter at $9.75 – a 25% drop from offer price and a 62% drop from its first day close.
- Pets.com, an online retailer of pet products that is majority backed by Amazon.com, priced at $11.00, opened at $13.50 and retreated to end its first day of trading at its offer price. Pets.com ended the quarter at $4.28, a drop of 61% from its offer price (a ruff quarter indeed!).

Another example of the aftermarket treatment given to once high-flying IPOs was Palm, a unit of 3Com and maker of handheld computing devices. After pricing at $38, Palm opened at $150 and traded as high as $165 before closing at $95.06 - a 150% gain. Ending the quarter at $44.87, Palm was still trading 18% above its offer price, but down over 52% from first day close and down 73% from its first day high.

Meanwhile, most of the Palm shares are still owned by 3Com, which plans to spin off Palm to its shareholders this summer. Since the end of the first quarter, Palm's price has retreated further to about $34. According to a recent article, based on Palm's and 3Com's stock prices, the indicated value of a 3Com share after the spinoff will be a negative $7.93, despite the fact that 3Com will have virtually no debt and about $8.50 a share in cash. Market rationality again prevails.

The average IPO ended the quarter only 57% above its offer price at the end of the first quarter. Internet-related IPOs fared only slightly better than their counterparts, ending the quarter with an average gain of 60% compared to 51% for all other IPOs.

This is still an impressive return for those able to get shares at the initial public offering price, but a theoretical investor buying at the end of the first day of trading would have seen an average loss of 18% at the end of the quarter (-23% for Internet related IPOs and -10% for non-Internet related IPOs).

Only 33 of the first quarter's offerings (23%) ended the quarter above their first day closing price. Nine companies ended the quarter over 40% down from their offer price, led by VantageMed Corporation (-63.5%) and Pets.com, Inc. (-61.1%).

The biggest winners of the quarter, based on March 31 closing prices compared to offering prices, were:

Company	IPO Date	IPO Price ($)	3/31/00 Price ($)	Change
webMethods, Inc.	2/10/00	35.00	241.38	590%
Quantum Effect Devices, Inc.	1/31/00	16.00	79.63	398%
724 Solutions, Inc.	1/27/00	26.00	124.50	379%
UTStarcom, Inc.	3/2/00	18.00	78.06	334%
Avanex Corporation	2/3/00	36.00	151.75	322%
Turnstone Systems, Inc.	1/31/00	29.00	115.00	297%
Telaxis Communications, Inc.	2/1/00	17.00	60.11	254%
ArrowPoint Communications, Inc.	3/30/00	34.00	118.48	249%
Selectica, Inc.	3/9/00	30.00	88.25	194%
Register.com, Inc.	3/2/00	24.00	69.50	190%

Leading Underwriters

In the first quarter of 2000, the underwriters lead-managing the most IPOs were:

Lead Underwriter	Number of IPOs	1999 Rank (full year)
Credit Suisse First Boston	19	1 st
Goldman, Sachs & Co.	18	2 nd

Morgan Stanley Dean Whittier	18	3 rd
Robertson Stephens	15	4 th
Merrill Lynch & Co.	8	6 th
Deutsche Banc Alex. Brown	7	8 th
Chase H&Q	7	10 th
Salomon Smith Barney	6	11 th
Lehman Brothers	5	7 th
Donaldson, Lufkin & Jenrette Securities Corp.	4	5 th

Moving up from 1999 were Deutsche Banc. Alex Brown, Chase H&Q and Salomon Smith Barney.

The lead underwriter ranking for Internet-related IPOs was little different than the overall ranking:

Lead Underwriter	**Number of IPOs**	**1999 Rank (full year)**
Credit Suisse First Boston	15	1 st
Goldman, Sachs & Co.	13	1 st
Robertson Stephens	12	1 st
Morgan Stanley Dean Witter	10	5 th
Merril Lynch & Co.	6	10 th
Chase H&Q	5	9 th
Deutsche Banc Alex. Brown	4	8 th

Donaldson, Lufkin & Jenrette Securities Corp.	3	5 th

Top East Coast Law Firms

The law firms participating in the most Eastern US IPOs in the first quarter of the year were:

Law Firm	Counsel to Issuer	Counsel to Underwriters	Total
Hale and Dorr	7	6	13
Testa, Hurewitz & Thibeault	1	5	6
Goodwin, Proctor & Hoar	4	0	4
Cravath, Swaine & Moore	0	4	4
Ropes & Gray	0	4	4
Shearman & Sterling	0	4	4
Brobeck, Phleger & Harrison	2	1	3
Foley, Hoag & Eliot	2	1	3
Latham & Watkins	1	2	3

Davis, Polk & Wardell	0	3	3

Massachusetts Moves Up in IPO State Rankings

The top ranked IPO states continue to be buoyed by the large number of technology and Internet-related company IPOs. California, the traditional IPO leader, saw 38 IPOs in the first quarter compared to 169 IPOs in all of 1999. Massachusetts moved into second place nationwide with 15 IPOs, followed by New York (7 IPOs) and Texas (7 IPOs).

Overall, of the 142 IPOs in the first quarter of 2000, 52 were by companies based in the Eastern U.S. (east of the Mississippi River) raising $7.59 billion, 60 were based in the Western U.S. raising $8.51 billion and 30 were based in foreign countries raising $16.08 billion.

Outlook

After weathering five interest rate hikes in the past twelve months and riding out market slowdowns in the fall of 1998 and the late summer of 1999, the long-anticipated market correction appears to have arrived. The market turbulence and price corrections for technology stocks in the first half of April suggest that the flood of IPOs will moderate in the near term. Although the continuing shift to a technology-based economy, coupled with a significant volume of venture capital investment, will produce a steady stream of IPO candidates, only the strongest are likely to come to market under current conditions, and almost certainly at lower valuations than what was attainable over the past year. The IPO market is likely to exhibit increasing selectivity among Internet and technology-based companies, with a renewed emphasis on profitability. The IPO bar is likely to be particularly high for business-to-consumer Internet companies, as the IPO landscape is littered with dot-coms now trading at less than 20% of their 52-week highs.

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