Internet IPOs Debut in Record Numbers in First Half of 1999

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The first half of 1999 was a glorious time to be an Internet company going public. Strong investor demand, coupled with a flood of willing companies, led to a record 114 IPOs by Internet-related companies (dubbed "*i*POs"), raising $9.75 billion. This compares to 21 IPOs in the first half of 1998 raising $951.1 million and 42 IPOs with proceeds of $1.96 billion in all of 1998. In the six months ended June 30, 1999, *i*POs accounted for roughly half of all U.S. initial public offerings.

A Quickening Pace

The parade began slowly, with only four IPOs in January, as the market continued to recover from its fall 1998 swoon. The pace and proceeds of IPOs increased as the year progressed:

Month	**Number of *i*POs**	**Proceeds (millions)**
January	4	289.7
February	10	614.5
March	12	1,164.2
April	19	1,385.2

May	30	2,953.0
June	39	3,340.2
Total	**114**	**9,746.7**

Anything Goes?

At times, the demand for IPOs seemed insatiable, and Internet companies of nearly every stripe and pedigree launched public offerings. Included were long-established household names such as Prodigy, DLJ (DLJDirect) and Barnes & Noble (barnesandnoble.com), as well as newly-minted Internet companies such as priceline.com and drkoop.com.

Little revenue? Big losses? Neither seemed to matter early in the year, as the new metrics for IPOs confounded traditional observers schooled in P/E ratios. Concepts like "early mover," "first in space" and "growth prospects" drove valuations to unprecedented heights.

But as the volume of IPOs picked up and large-cap Internet companies saw their market prices tumble from all-time highs, the first day prices of IPOs were no longer guaranteed to soar from their openings. On May 5, 1999, COMPS.COM was the first "broken" IPO of the year as its first day price closed below its offering price. By the end of the half-year, Internet companies with solid credentials were still finding receptive audiences, but marginal candidates were withdrawing or trading down after their IPOs.

Winners and Losers

There were some spectacular opening days for IPOs in the first half of 1999, led by MarketWatch.com (474% increase on first trading day), priceline.com (331%), Healtheon (292%), Ariba (291%) and eToys (283%). Of the 114 IPOs, 15 more than tripled on their opening days and 40 more than doubled. The average first day gain was 154% for IPOs in the first quarter and 73% for *i*POs in the second quarter.

On a more sustained basis, at least as measured in Web time, the biggest winners were:

Company	*i*PO Date	*i*PO Price ($)	6/30/99 Price ($)	% Change

Healtheon	2/10/99	8.00	77.00	863%
priceline.com	3/29/99	16.00	115.56	622%
VerticalNet	2/10/99	16.00	105.00	556%
Redback Networks	5/17/99	23.00	125.56	446%
Covad Communications Group, Inc.	1/21/99	12.00 [1]	53.31	344%
Juniper Networks	6/24/99	34.00	149.00	338%
StarMedia	5/25/99	15.00	64.13	328%
Ariba	6/22/99	23.00	97.25	323%
F5 Networks	6/3/99	10.00	41.00	310%
Bottomline	2/12/99	13.00	53.00	308%

[1] adjusted for 3:2 split on May 19

As investors became more selective and the volume of IPOs soared in the second quarter, some IPOs stumbled. The worst performing IPOs in the first half of 1999, all of which debuted in the second quarter, were:

Company	***i*PO Date**	***i*PO Price ($)**	**6/30/99 Price ($)**	**% Change**
Topjobs.com	4/27/99	12.00	5.56	-54%
COMPS.COM	5/5/99	15.00	7.38	-51%
Intelligent Life	5/13/99	13.00	6.56	-50%
Fashionmall.com	5/21/99	13.00	7.19	-45%
NetObjects	5/7/99	12.00	8.06	-33%
TownPagesNet.com	4/30/99	10.00	7.00	-30%
GenesisIntermedia.com	6/14/99	8.50	6.13	-28%
BiznessOnline.com	5/12/99	10.00	7.31	-27%

Alloy Online	5/14/99	15.00	11.44	-24%
Flycast	5/4/99	25.00	19.13	-24%

Overall, there were more winners than losers, with 73% of the first-half IPOs closing on June 30, 1999 at a higher price than their IPO prices, 26% closing lower and one unchanged. The average first-half IPO closed on June 30, 1999 at double its offering price.

Once again, first quarter IPOs outperformed second quarter IPOs. The average first quarter IPO closed 193% above its offering price on June 30, 1999, but the average second quarter IPO closed "only" 72% above its offering price on June 30, 1999.

East Coast Edges West Coast

New York spawned three of the five largest IPOs of the first half of 1999, TD Waterhouse Securities ($1.01 billion), barnesandnoble.com ($450 million) and DLJDirect ($320 million), but California led the pack with 40 IPOs. Following California were New York (22), Massachusetts (8), Texas (6), Connecticut (5) and Virginia (5). Overall, of the 114 IPOs in the first half of 1999, 56 were by Internet companies based in the Eastern U.S. (east of the Mississippi River) raising $5.46 billion, 54 were based in the Western U.S. raising $4.11 billion and four were based in foreign countries raising $179 million.

Leading Underwriters

In the first six months of 1999, the underwriters lead-managing the most IPOs were:

Lead Underwriter	**Number of *i*POs**
Banc Boston Robertson Stephens	15
Goldman, Sachs & Co.	14
Credit Suisse First Boston	11

Morgan Stanley Dean Witter	10
Bear, Stearns & Co. Inc.	9
BT Alex Brown	8

Top Law Firms

The law firms participating (as counsel to the issuer or underwriters) in the most Eastern U.S. IPOs in the first half of the year were:

Law Firm	**Total *i*POs**	**Percentage of Total**
Hale and Dorr	12	21.4%
Brobeck, Phleger & Harrison	9	16.1%
Cravath, Swaine & Moore	8	14.3%
Testa, Hurewitz & Thibeault	5	8.9%

Davis, Polk & Wardwell	4	7.1%
Skadden, Arps, Slate, Meagher & Flom	4	7.1%

Outlook

Investors enthusiastically embraced Internet-company IPOs in the first half of 1999. Much of this reflected the merits of particular companies, but supply and demand for Internet stocks also played a role. As the volume of IPOs increased in the second quarter, aftermarket performance suggested that investors were exercising greater selectivity among Internet companies. At June 30, there were more than 150 IPOs in the pipeline, and the total dollar volume of pending IPOs exceeded the total dollar volume of all IPOs completed in the first half of the year. Although the sheer volume of recent and pending IPOs inevitably affects demand, strong economic conditions, coupled with the inexorable shift to a Web-based economy, should continue to foster IPOs for the balance of 1999.

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Note on Data: All data in this review was compiled by Hale and Dorr LLP. Offering proceeds exclude proceeds from exercise of underwriters' over-allotment options, if applicable. The data came from a number of sources, including IPO Central, IPO Data Systems, SEC filings, Thomson Financial Securities Data and the Washington Service Bureau.

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