
IPO Market Completes Slow 2002 with Modest Upturn

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Facing the combined burden of a sluggish economy, languishing capital markets, a string of corporate and accounting scandals and the threat of imminent military confrontations overseas, the IPO market was depressed for most of the year. However, the fourth quarter ended the year with a modest upturn in deal volume.

The fourth quarter produced 20 IPOs with gross proceeds of \$5.04 billion, compared to 5 IPOs and \$4.90 billion in gross proceeds in the third quarter. Overall, there were only 75 IPOs with gross proceeds of \$25.44 billion in 2002, compared to 91 IPOs raising \$41.25 billion in 2001 and 446 IPOs raising \$108.15 billion in 2000. The 75 IPOs in 2002 was the lowest annual total since the 62 IPOs in 1979.

Average deal size declined 25% in 2002, from \$453.3 million in 2001 to \$339.2 million, primarily because of a decline in the number of multi-billion dollar IPOs from 11 to five. However, the average deal size in 2002 remained well above the 1999-2000 average of \$207.0 million, as offerings by larger and more mature companies continued to supplant start-up company IPOs. IPOs by U.S. companies declined 14%, from 77 in 2001 to 66 in 2002, and gross proceeds from U.S. issuer IPOs declined 41%, from \$32.19 billion in 2001 to \$19.03 billion in 2002. With only three billion-dollar offerings by U.S. companies in 2002, led by consumer finance giant CIT Group (\$4.60 billion) and insurance company Travelers Property Casualty (\$3.89 billion),

the average U.S. deal size fell to \$288.3 million in 2002 from \$418.1 million in 2001.

For the first time since 1998, the number of IPOs by companies in the eastern U.S. outnumbered those by companies in the western U.S. In 2002, there were 34 eastern U.S. IPOs raising \$15.59 billion, compared to 32 western U.S. IPOs raising \$4.44 billion. California topped the state charts with 15 IPOs, followed by New York (8 IPOs) and Virginia (6 IPOs), the latter indicative of increased interest in national security, government contracting and defense-related companies.

The percentage of technology-related IPOs declined from 45% of all IPOs in 2001 to 37% in 2002, and their proceeds declined from 28% to 25% of total IPO proceeds. Offerings by consumer products companies accounted for 20% of 2002's IPOs, reflecting the sustained strength of consumer spending, followed by financial services and insurance companies (19% of the total) and medical and health-care-related companies (13%).

The increased seasoning of IPO companies and the shift away from technology company IPOs is also evident in the listing choices of IPO companies. In 2002, 53% of all IPOs were listed on Nasdaq and 45% were listed on NYSE. In contrast, in both 1999 and 2000, 88% of companies going public debuted on Nasdaq. The NYSE had only 9% of new listings in 1999 and 11% in 2000.

Venture capitalists were again battered by the IPO market in 2002. The year produced 19 IPOs by venture-backed companies, compared to 21 in 2001 and a whopping 200 in 2000. As a percentage of all U.S. issuer IPOs, venture-backed IPOs edged up from 27% in 2001 to 29% in 2002, but remained far short of the 59% in 2000.

With Wall Street extending its downward trend for another year, the average IPO in 2002 outperformed the market by a wide margin. While the Dow declined 17% during the year and the Nasdaq 32%, the average IPO in 2002 was trading a scant 1% below its offering price at year-end. In a

favorable signal for the 2003 technology IPO market, the average technology-related IPO from 2002 was trading 4% above its offer price at year-end. The best-performing sector (based on average year-end gain from offer price) was IT systems and services providers, ending the year with an average gain of 32%.

The biggest first-day gainers of the year were JetBlue Airways and PayPal (since acquired by eBay), increasing 67% and 55%, respectively, on their first trading days. By year-end, the biggest winner was technology-based educational products company Leapfrog Enterprises, trading 93% above its IPO price, followed by global outsourcing and consulting firm Hewitt Associates (up 67%) and retailer Dick's Sporting Goods (up 60%).

Looking ahead, we believe that innovation will remain a driver of long-term economic growth, and that the long-term prospects for many technology and life sciences companies in the wireless, software, biopharmaceuticals, medical devices and health care industries are bright. By historical measures, the ebullient IPO market of the late 1990s was as aberrational as the tepid IPO market of 2001 and 2002. Although we do not anticipate a return to the IPO market conditions of 1999 and 2000 any time soon, we do expect the IPO market to improve in 2003.

Click [here](#) to request a print copy of our 2002 IPO Report, which contains additional information and analyses concerning the IPO market. Click [here](#) to request a print copy of our 2002 Venture Capital Report.

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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 the exercise of underwriters' over-allotment options, if applicable. The data is collected from various sources, including Global Securities Information, IPO.com, IPOCentral.com, Renaissance Capital (www.IPOhome.com) and SEC filings.

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