# IPO Market Continues to Slumber during Second Quarter of 2001

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The second quarter of 2001 produced 29 IPOs with gross proceeds of $17.86 billion. This represented a 45% increase in the number of offerings from the first quarter of 2001 and a 117% increase in dollar volume, although nearly half of all second quarter IPO proceeds resulted from the Kraft Foods IPO. In contrast, 104 IPOs in the second quarter of 2000 raised $31.33 billion and 154 IPOs in the second quarter of 1999 produced $18.88 billion.

The second quarter saw a steady flow of IPOs from energy-related companies, led by the Norwegian oil and gas company, Statoil, which raised $2.86 billion. For Internet-related companies, the sea change from the IPO market of 1999-2000 continued, as a mere three Internet-related companies managed to complete IPOs in the second quarter of 2001 with gross proceeds of $671 million, compared to 48 in the second quarter of 2000 with gross proceeds of $6.47 billion and 88 in the second quarter of 1999 with gross proceeds of $7.68 billion.

The changing IPO market is also reflected in the percentage of companies listing on Nasdaq and the NYSE. 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. As of the end of the second quarter of 2001, 53% of this year’s IPOs had been on Nasdaq and 44% were on the NYSE.

The average IPO in the first quarter closed up 8% on its first trading day – assisted by lower pricing levels – and only one company closed below its offer price on its first day. The more aggressive pricing of some of the second quarter’s more prominent offerings led to a number of "broken" IPOs, but the average offering managed a first day gain of 15%.

Aftermarket performance mirrored the broader market indices as the average IPO increased 17% by quarter end. Shining stars were Select Medical (up 111%) and Simplex Solutions (up 98%). Eight of the second quarter’s offerings were trading below their offer price at the end of the quarter.

Capital markets conditions, a leading indicator for the IPO market, have not yet responded to the stream of interest rate cuts that have reduced the federal funds rate – the Fed's primary tool for influencing the economy – from 6.50% at the start of the year to 3.75% in July. Despite rebounding from a low of 1,639 in April, the Nasdaq is still well below the 2,470 level where it began the year, and earnings warnings and announcements of weak earnings have repeatedly brought the major indices down.

Notwithstanding the street's enthusiasm for interest rate cuts, lower interest rates do not necessarily address the underlying causes of market weakness in general and of technology stocks in particular. Excessive IT spending fueled by Y2K fears and the build-out of technology networks have saddled many companies with excess capacity resulting in a steep drop in business investment. In addition, corporate belt tightening has led many companies to delay significant technology investments, unless the projects are expected to produce almost immediate cost savings to offset the expense.

Although overall market conditions are currently unfavorable, IPOs will be a viable option for companies with experienced management, solid business plans, superior products or market positions and strong growth and earnings prospects as macroeconomic conditions improve.

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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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