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IPO Market Remains Dormant in the Third Quarter of 2001

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Weak market fundamentals amidst concern about the health of the U.S. and global economy resulted in the IPO market grinding to a halt even before the terrorist attacks of September 11. No IPOs were priced between August 13 and October 3, making September the first month since 1975 without a single new offering.

The third quarter of 2001 produced a mere 13 IPOs with $3.01 billion in gross proceeds, compared to 142 IPOs with $27.22 billion in proceeds in the third quarter of 2000 and 151 IPOs with $18.00 billion in proceeds in the third quarter of 1999. The largest IPO of the third quarter of 2001, Accenture Ltd, accounted for over 55% of the quarter's total gross proceeds.

Offerings by medical device and healthcare related companies accounted for five of the quarter's 13 IPOs. Along with energy related companies, medical device and healthcare related companies have, on average, enjoyed the most successful offerings this year.

Year to date, 2001 has produced 62 IPOs with gross proceeds of $29.09 billion, down dramatically from 388 IPOs raising $90.69 billion in the first nine months of 2000 and 375 IPOs raising $47.70 billion in the first nine months of 1999.

The average IPO during the first nine months of 2001 closed down 13% from its offer price as of the end of September, although 11 companies managed to gain at least 25% from their offer price – five of these gaining over 50%. On the other hand, 29 companies also shed 25% or more of their offer price as of the end of September, including 10 companies losing over 50%.

Activity in the IPO market is closely correlated with conditions in the capital markets. The markets have not yet been revived by a series of nine interest rate cuts bringing the overnight federal funds rate – the Fed's primary tool for influencing the economy – down from 6.50% in January to 2.50% at the start of October, the lowest level since 1962. Through the end of September, the Nasdaq has declined 39% this year and the Dow has declined 18%.

Despite 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. Historically high levels of IT spending driven by Y2K concerns and the build-out of technology networks in the period 1998-2000 produced excess capacity which, now coupled with weakening economic conditions, has led to a steep drop in business investment.

Although the present IPO market is weak for all but the strongest candidates, we expect to see a resumed flow of new offerings as economic and market conditions improve. Companies with experienced management, solid business plans, superior products or market positions and strong growth and earnings prospects will be first in line.

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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.