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## Mid-Year 2004 IPO Report

2004-07-30

### Market Review

The first half of 2004 produced 85 IPOs in the US—compared to an anemic seven IPOs in the first half of 2003—with gross proceeds of \$15.72 billion. The year-to-date 2004 total already surpasses the full year totals for both 2003 (71) and 2002 (75), and comes close to the full year total of 91 IPOs in 2001. Given the less-than-stellar capital market conditions and continued turbulence in the Middle East, the resurgent IPO market is even more impressive and bears testament to investors' renewed appetite for IPOs—and technology offerings in particular.

Median deal size declined to \$78 million in the first six months of 2004 from \$119 million in 2003 and \$116 million in 2002, reflecting a higher proportion of IPOs by smaller venture-backed and technology companies this year. Consistent with these trends, the average IPO company in the first half of 2004 had \$87 million in annual revenue, compared to \$115 million in 2003 and \$254 million in 2002, and only 53% of IPO companies in the first half of 2004 were profitable compared to 66% in 2003 and 62% in 2002.

The biopharmaceutical sector led the first half 2004 IPO market, with 21 IPOs, or roughly 25% of all IPOs, followed by healthcare and medical device companies, with 10 IPOs (12%). Overall, technology-related companies (including biopharmaceutical, healthcare and medical device companies) produced 48 IPOs in the first half of 2004, or 56% of the total, representing a sharp increase from the 32% in 2003. However, the average tech IPO appreciated only 4% by June 30, compared to an average gain of 17% by non-tech IPOs.

Venture-backed IPOs continued their comeback from the dark days of 2001-2003, when an average of only 20 VC-backed companies a year completed IPOs. According to VentureOne, there were 34 IPOs by VC-backed companies in the first half of 2004 (40% of all IPOs) raising gross proceeds of \$2.06 billion. The second quarter alone saw 24 IPOs by VC-backed companies, with gross proceeds of \$1.35 billion—the highest quarterly total since the 18 VC-backed IPOs in the fourth quarter of 2000. In another promising sign, according to VentureOne, there were 48 VC-backed IPOs in registration on June 30.

Capital market conditions were generally stagnant over the first half of 2004. The Dow declined

0.2% through June 30, and the Nasdaq gained 2.2% over the first six months of the year, thanks to a 2.4% gain in the second quarter. In contrast, the average IPO in the first half of 2004 gained an impressive 10% from its offering price through June 30. Of the 84 IPOs that commenced trading in the first half of 2004 (one was priced June 30 and began trading July 1), 50 (or 60%) were trading above their offering price on June 30, and seven were up more than 50%.

The best performing IPO sector of the first half of 2004 was consumer products. The six IPOs by consumer product companies gained 47% on average by June 30, led by online diamond and jewelry retailer Blue Nile, which gained 83% from its offering price. The eight IPOs by energy-related companies followed, ending the first half of the year up an average of 30%. Biopharmaceutical company IPOs increased an average of 5% by June 30, and healthcare and medical device companies traded up 14% on average. The poorest performing sector was semiconductors, with its five IPOs down 25% on average through June 30.

The year's best performing IPOs through June 30 were Jed Oil, trading 120% above its offering price, Crosstex Energy (up 106%) and Eyetech Pharmaceuticals (up 104%). The biggest first-day gainer of the year was again Jed Oil, which gained 104% on its first trading day from offering price—the first IPO to "shoot the moon" since the fourth quarter of 2000. Other impressive first-day gainers were salesforce.com (up 56%) and Eyetech Pharmaceuticals (up 54%).

In the first six months of 2004, 33 IPOs (39% of the total) were by companies based in the eastern US (east of the Mississippi River). Western US based issuers accounted for 40 IPOs (47% of the total) and the remaining 12 IPOs (14% of the total) were by non-US issuers—percentages mirroring those from full year 2003. Eastern US IPOs raised \$8.21 billion (52% of the total), western US IPOs raised \$3.65 billion (23%) and non-US issuer IPOs raised \$3.86 billion (25%) of the year-to-date IPO proceeds.

The number of companies listed on Nasdaq—the preferred listing choice for most venture-backed and emerging companies—grew to 72% in the first half of 2004, up from 65% of all 2003 IPOs and 53% of all 2002 IPOs. Average IPO offering size for companies listing on Nasdaq was \$69 million compared to \$525 million for companies listing on the NYSE.

### **Law Firm and Lead Underwriter Rankings**

In the first half of 2004, WilmerHale handled seven IPOs by eastern US issuers—more than any other law firm—for a 21% market share. Among eastern US biopharmaceutical company IPOs, the firm's lead was even more pronounced, as WilmerHale handled six IPOs, for a 75% market share—no other law firm was involved with more than one IPO by an eastern US biopharmaceutical company.

Goldman Sachs and Morgan Stanley, with four each, led the most IPO underwritings for eastern US issuers in the first half of 2004, followed by Credit Suisse First Boston and UBS, with three each.

For the period 1996 through the first half of 2004, WilmerHale handled 145 IPOs by eastern US issuers (71 as company counsel and 74 as underwriters' counsel). This is the largest number of eastern US IPOs handled by any law firm, as both company counsel and underwriters' counsel, and

the total number of IPOs is more than 60% higher than any other law firm. During the period, Credit Suisse First Boston was lead underwriter on the most eastern US IPOs, with 133, followed by Goldman Sachs (88) and Morgan Stanley (81).

Click [here](#) to view charts showing law firm rankings and [here](#) to view charts showing lead underwriter rankings.

## Market Outlook

By historical measures, the ebullient IPO market of the late 1990s was as aberrational as the tepid IPO market that prevailed from 2001 until the middle of 2003. The IPO market recovery—which began with 64 IPOs in the second half of 2003—continued through the first half of 2004.

With over 170 IPOs in registration at the close of the second quarter, including a number of promising VC-backed companies, the second half of 2004 should produce a steady flow of offerings, but there are also some warning signs on the IPO horizon:

- Capital Market Conditions - Stable and robust capital markets are a leading indicator of IPOs. In 2003, the Dow increased 25% and Nasdaq 50%. Through June 30, both indices were nearly flat in 2004, and since June 30 (through July 29) the Dow declined nearly 3% and Nasdaq 8%.
- Economic Conditions- Year-to-date economic growth has not met expectations, and rising interest rates and oil prices are a concern. Optimism is also tempered by concerns over continuing military conflict, the threat of terrorist attacks and a growing federal budget deficit.

Although the bar clearly has been lowered—in terms of revenue and profitability—for many of this year's IPO candidates compared to the high degree of selectivity shown in 2001-2003, we expect most successful IPO candidates in the balance of 2004 will have experienced management, superior products or market positions, and strong growth and earnings prospects.

## For More Information

Our *2003 IPO Report* includes:

- detailed analysis of the 2003 IPO market
- regional breakdowns (New England, Tri-State, Mid-Atlantic and non-US Issuers)
- a review of the 2003 PIPEs and Rule 144A markets
- an overview of the impact of the investment banking global settlement
- discussion of the key attributes of outstanding corporate directors
- IPO law firm and lead underwriter rankings

Click [here](#) to view an online copy of our *2003 IPO Report*. To request a print copy of the *2003 IPO Report*, please click [here](#).

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Notes on Data: WilmerHale compiled all data in this report 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, Hoover's IPOCentral.com, Renaissance Capital (IPOhome.com), IPOVitalSigns.com and SEC filings. IPO data for WilmerHale includes IPOs handled by Hale and Dorr LLP and Wilmer Cutler Pickering LLP before their merger in May 2004. For lead underwriter rankings, IPOs are included under the current name of each investment bank.