

Third Quarter 2000 IPO Market Exhibits Strong Results

2000-10-01

The third quarter 2000 IPO market rebounded nicely from the market turbulence for technology and Internet stocks that chilled the IPO market for most of the second quarter. The third quarter ended with strong momentum, but the IPO market is likely to remain selective for the balance of the year.

In the third quarter, 142 IPOs came to market with proceeds of \$27.22 billion, compared to 151 IPOs with proceeds of \$18.00 billion in the same period last year. The 142 IPOs in the third quarter matched the first quarter total and was up from 104 IPOs in the second quarter. Total proceeds declined from \$31.33 billion in the second quarter to \$27.22 billion in the third quarter, primarily because the second quarter included three huge IPOs that contributed over \$18 billion in proceeds.

Monthly Totals

The impressive overall totals for third quarter IPOs disguised huge swings in activity over the three months. July yielded the largest monthly total since March 2000. August, historically the slowest month of the year for the IPO market, had over fifty IPOs in the first two weeks alone, due to a large backlog of deals in the pipeline following the April market correction and a short-lived market rally. The second half of the quarter was more in line with past years. The four weeks surrounding Labor Day produced only three offerings, before the quarter ended with 20 IPOs in the last week of September.

Month	Total	Proceeds (millions)
January	21	4,085.6
February	55	8,673.0

March	66	19,390.1
First Quarter 2000	142	32,148.8
April	37	17,655.0
May	25	2,477.0
June	42	11,194.1
Second Quarter 2000	104	31,362.2
July	49	11,016.2
August	65	10,719.2
September	28	5,482.3
Third Quarter 2000	142	27,217.8
2000 Total Through 9/30/00	388	90,692.8

Technology and Internet stocks continued to face a mixed reception in the third quarter. E-commerce IPOs remained largely unpalatable following the dot-com retrenchment earlier in the year, but Internet infrastructure companies enjoyed some of the most successful offerings of the quarter. IPOs in the optical networking, wireless, software and biotech sectors also were well-received in the quarter. In total, the third quarter saw 62 Internet-related IPOs with proceeds of \$6.52 billion, an increase from 48 Internet-related IPOs with proceeds of \$6.47 billion in the second quarter. However, Internet-related IPOs in the third quarter of 2000 were sharply down from the 101 deals that produced \$7.41 billion in the third quarter of 1999.

Internet Related Non-Internet Related

Month	Number	Proceeds	Number	Proceeds
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		(millions)		(millions)
January	8	791.7	13	3,294.0
February	38	3,933.4	17	4,739.6
March	40	5,422.6	26	13,967.6
First Quarter 2000	86	10,147.6	56	22,001.2
April	18	2,170.2	19	15,484.8
May	9	892.7	16	1,584.4
June	21	3,407.8	21	7,786.4
Second Quarter 2000	48	6,470.6	56	24,855.5
July	22	2,909.9	27	8,106.3
August	28	2,482.3	37	8,237.0
Third Quarter 2000	62	6,522.3	80	20,695.5
2000 Total through 9/30/00	196	23,140.6	192	67,552.2
Average		118.1		351.8

Winners and Losers

First-day gains were up slightly in the third quarter from the previous quarter. The average IPO in the third quarter increased 39% on its first trading day, compared to an average first-day gain of 35% for second quarter IPOs and 95% for first quarter IPOs.

The third quarter saw two IPOs triple on their first day and 20 double, compared to five "triples" and 11 "doubles" in the second quarter and 21 "triples" and 52 "doubles" in the first quarter. Even with Internet-related IPOs having lost some of their allure, however, Internet-related offerings were still responsible for 71% of the moonshots (100% first day gains) in the third quarter and 75% of the year-to-date total.

The top opening-day performers of the third quarter were Avici Systems Inc. (212%), Active Power, Inc. (210%), McDATA Corporation (206%), INRANGE Technologies Corporation (189%) and SpeechWorks International, Inc. (184%). However, none of these deals cracked the all-time top-thirty list for first-day gains.

The biggest winners of the third quarter, based on quarter-end closing prices compared to offering prices, were:

<u>Company</u>	<u>IPO Date</u>	<u>IPO Price (\$)</u>	<u>9/30/00 Price (\$)</u>	<u>Change</u>
McDATA Corporation	8/9/00	28.00	122.89	339%
Active Power, Inc.	8/7/00	17.00	62.00	265%
Bruker Daltonics Inc.	8/3/00	13.00	44.38	241%

Microtune, Inc.	8/4/00	16.00	53.56	235%
INRANGE Technologies Corp.	9/21/00	16.00	53.00	231%
PECO II, Inc.	8/17/00	15.00	46.81	212%
SpeechWorks International, Inc.	7/31/00	20.00	62.00	210%
Avici Systems Inc.	7/27/00	31.00	95.13	207%
Dyax Corp.	8/14/00	15.00	43.75	192%
Illumina, Inc.	7/27/00	16.00	45.38	184%

The average third quarter IPO ended the quarter 56% above its offering price, compared to second quarter-end gains of 73% for second quarter IPOs and first quarter-end gains of 57% for first quarter IPOs. Reflecting the successful IPOs of a number of non-Internet related companies, particularly in the life sciences and biopharmaceutical industries, third quarter non-Internet related IPOs fared better than Internet-related IPOs, ending the third quarter with an average gain of 60% compared to 50% for Internet-related offerings.

The third quarter also produced some flops. First-day losers were led by iAsiaWorks, Inc. (down 27% from its IPO price), INTERLAND, INC. (-26%), Avistar Communications Corporation (-22%) and @Road, Inc. (-20%). Through September 30, 17 third-quarter IPOs were trading more than 25% below their offering prices, "led" by divine interVentures, inc. (-58%), Sohu.com Inc. (-55%), Axcelis Technologies, Inc. (-46%), Corio, Inc. (-45%) and ASAT Holdings Limited (-45%).

California and Foreign IPOs Remain Strong

IPOs by California and foreign issuers continue to dominate the overall IPO market. California produced 50 IPOs with proceeds of \$4.68 billion during the third quarter, representing 35% of the total number of IPOs and 17% of the total proceeds. California leads the IPO state

rankings with 116 IPOs in the first three quarters of 2000, trailed by Massachusetts (30 IPOs), Texas (15 IPOs), New York (13 IPOs) and Washington (12 IPOs).

Of the 388 IPOs in the first three quarters of 2000, 127 IPOs (33% of the total) were by companies based in the Eastern U.S. (east of the Mississippi River), 174 IPOs (45%) were by companies based in the Western U.S. and the remaining 87 IPOs (22%) were by foreign companies. Eastern U.S. IPOs raised \$21.27 billion (23% of the total), Western U.S. IPOs raised \$29.64 billion (33%) and foreign IPOs raised \$39.79 billion (44%).

Leading Underwriters

In the first three quarters of 2000, the underwriters lead-managing the most IPOs were:

<u>Lead Underwriter</u>	<u>Number of IPOs</u>	<u>1999 Rank (full year)</u>
-	-	-
Goldman, Sachs & Co.	50	2 nd
Credit Suisse First Boston	49	1 st
Morgan Stanley Dean Whittier	36	3 rd
Chase H&Q	27	10 th
Merrill Lynch & Co.	27	6 th
Robertson Stephens	27	4 th
Lehman Brothers	26	7 th
Salomon Smith Barney	22	11 th
Deutsche Banc Alex. Brown	19	8 th

Donaldson, Lufkin & Jenrette Securities Corp.	19	5 th
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Top East Coast Law Firms

The law firms participating in the most Eastern U.S. IPOs in the first three quarters of the year were:

<u>Law Firm</u>	<u>Counsel to Issuer</u>	<u>Counsel to Underwriters</u>	<u>Total</u>	<u>1999 Rank (full year)</u>
Hale and Dorr	13	8	21	1 st
Ropes & Gray	3	11	14	9 th
Testa, Hurwitz & Thibault	3	10	13	2 nd
Shearman & Sterling	0	10	10	x

Mintz, Levin	5	3	8	x
Morgan, Lewis & Bockius	7	1	8	7 th
Skadden, Arps	3	5	8	4 th
Cravath, Swaine & Moore	0	7	7	5 th
Davis Polk & Wardwell	0	7	7	6 th
Piper Marbury Rudnick & Wolfe	5	2	7	x

x not in top ten

Outlook

Although the third quarter ended on a strong note with 20 IPOs in its last week, the quarter-end

momentum probably does not signal the return of the frenzied IPO market of much of 1999 and early 2000. The IPO market is likely to remain selective during the balance of the year, and its overall strength will depend on many factors, including the following:

Market Conditions: Market conditions were generally weak throughout the third quarter and have worsened further in the early fourth quarter, especially for technology stocks. The Dow inched up 2% in the third quarter but has given that back, and then some, in the first two weeks of the fourth quarter. The tech-heavy Nasdaq Composite Index lost 7% in the third quarter, declined an additional 10% in the first two weeks of the fourth quarter. Internet stocks fared even worse, with TheStreet.com Internet Sector Index falling 15% in the third quarter and a whopping 22% in the first two weeks of the fourth quarter.

Earnings Concerns: The increasing selectivity among technology-company stocks continues to place a heavy emphasis on profitability. Internet and other technology companies are now expected to have profits or a plausible plan to achieve profitability. A spate of disappointing third-quarter earnings announcements hammered many tech stocks early this month and have contributed to a mixed tone for the IPO market.

Macro Factors: A variety of macroeconomic and geopolitical factors can influence market conditions in general and the IPO market in particular. The U.S. economic expansion appears to be slowing; the deepening crisis in the Middle East is roiling the markets; interest rates may not have stabilized (although the Fed held rates steady at its most recent meeting); and oil prices are again a concern, especially as winter approaches.

Supply and Demand: The IPO pipeline — the "supply" — continues to be full, representing backlog from delayed offerings after the market correction of the spring as well as new offerings spawned by significant venture capital investments. Demand is trickier to gauge and

often fickle.

E-commerce Prospects: Many Internet and technology stocks relate, directly or indirectly, to electronic commerce. The increasing importance of e-commerce remains inevitable, but the pace and scope of its proliferation continue to be hindered by the twin challenges of privacy and security. The upcoming holiday season will be a bellwether for the future of many Internet companies and their prospects for eventual IPOs.

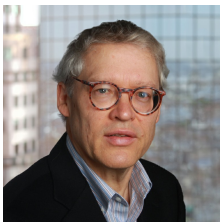
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Notes on Data: Hale and Dorr LLP compiled all data in this review unless otherwise noted. Offerings by REITs, bank conversions and closed-end investment trusts are excluded. Offering proceeds exclude proceeds from exercise of underwriters' over-allotment options, if applicable. The data came from a number of sources, including IPO.com, IPOCentral.com, SEC filings and the Washington Service Bureau.

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