EY Global IPO Trends

2014 Q4

Global IPOs outperform main indices in good, not epic, year

Globally, 2014 was a very strong year with IPOs outperforming global indices by around 12.3% on average.[1] Capital raised stood at US$256.5b, up 50% from last year and the highest level since 2010. Deal numbers reached 1,206 IPOs, an increase of 35% on 2013 and more than in any year since 2011. However, because Q4'14 failed to live up to expectations, we characterize 2014 as a good, rather than an epic year. Historically, IPO activity in Q2 and Q4 are the most active quarters in the year, with Q4 activity being noticeably higher than Q2. We have not observed a similar increase in activity in 2014.

What made 2014 a standout year for IPOs

A number of factors combined to sustain IPO activity in 2014. With inflation and interest rates at historic lows, money was cheap. This encouraged business and consumers in many markets to begin spending and borrowing again – stimulating demand and boosting employment levels.

In many geographies, stock markets rallied on the back of rebounding confidence and the supportive actions taken by central banks. The combination of low volatility, good corporate earnings growth and a lack of alternative investment options meant risk appetite was focused on equities. IPOs performed particularly strong. According to our analysis, global IPOs delivered on average a 17.1% year-to-date return globally, outperforming market indices by around 12.3%, making this the best year for IPO performance since 2007. [1]

As we noted last quarter, key players in this rebounding market were financial sponsors, many of whom were seeking to close out an investment cycle that began in the high valuation years of 2006 and 2007, which preceded the economic downturn. Sponsors ready to exit were keen to benefit from resurgent stock markets, and the wide-open IPO window drove historically high levels of PE- and VC-backed activity during the year. Globally, they accounted for 27% of the number of IPOs in 2014 and 48% of the proceeds, but it was in IPOs of companies in developed markets that their role was particularly evident, accounting for 43% by number and 56% by proceeds.

What the 2014 trends and Q4 performance tell us about prospects for 2015

Interestingly, Q4'14 presented more of a nuanced picture in terms of global economics – underscoring the wisdom of sponsors who pushed for exits in Q3'14. On 7 October, the International Monetary Fund (IMF) reduced its global economic growth estimates, citing persistent weakness in the eurozone and the slowdown in emerging markets. Although the US economy continues to gather momentum, the eurozone recovery remains fragile, casting a shadow over markets within Europe where performance had been improving – in particular the UK.

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EY

Building a better working world

In emerging markets, growth prospects are now muted. Growth in Brazil and Russia continue to be lower than anticipated — and as the sanctions net tightens, the prospects for Russia look increasingly uncertain. China and India are a different story however. Although China's economy is settling back onto a lower growth trajectory, the market for IPOs remains bullish, as we can see from the high average current returns of recent IPOs. In India, there is hope of significant economic improvement on the back of recent elections and subsequent reforms that have served to boost business and investor confidence.

As warning lights start to flash once more on the global economic dashboard, market performance has become volatile once again — spiking in October according to the CBOE Volatility Index® (VIX®), influencing market returns and company valuations.

What we predict for the global IPO market in 2015

Against this shifting global economic backdrop, we anticipate deal volumes will reach 240 IPOs in Q1'15, raising around US$50b in capital — putting the quarter on par with Q1'14 (258 IPOs, US$47.1b). We predict a number of factors will influence IPO activity as we move into 2015.

Quest for return will continue to fuel cross-border activity

At 129 IPO deals (11% of global IPOs), cross-border activity in 2014 was at its highest level since 2007. We believe the US will continue to serve as one of the primary destinations for companies looking to generate value. The market offers a deep pool of comparable companies, a well-developed infrastructure that supports active investors, a knowledgeable analyst community delivering a consistent flow of informed commentary and investors ready to pay for growth. Other major cross-border listing destinations include the London Main Market and AIM, the Hong Kong Stock Exchange, Euronext, Deutsche Boerse and the Singapore Stock Exchange.

Similarly, we expect high levels of return to encourage a continuing flow of companies eastward. Asian stock exchanges, specifically mainland Chinese exchanges, have dominated the leaderboard this year. On average, IPOs outperformed the mainland China market by more than 100% in 2014. This compares to 15.6% of market outperformance for IPOs on US exchanges.

Management teams will need to weigh the options very carefully — although cross-border listings may be more complex, the higher level of returns may be compelling.

Financial sponsors will remain active, creating fresh opportunity for capital raisers

PE and VC sponsors will remain keen to exit the investments they made before the economic downturn in 2007. Although many of these portfolio companies listed in 2014, a proportion remains, and these will continue to filter through to the IPO market, albeit on a smaller scale. Conversely, sponsors will be seeking to reinvest returns and the outperformance of IPOs in 2014 will see renewed appetite to invest in the next wave of companies getting ready to come to market, suggesting those looking for investment should be not overlook PE as a source of high-value, late-stage funding.

Volatility will return

Rising interest rates through the second half of 2015, the potential for economic shocks triggered by geopolitical uncertainty and cessation of quantitative easing may mean the global IPO market will be less consistently buoyant in 2015 than it was in 2014. Opportunities will remain, but conditions may be less predictable. This means the level of withdrawals or postponement may rise and companies focused on the IPO path will need to be well prepared with a strong management team, a compelling value story and a price that is in line with investor expectations so they are ready to take advantage of periods when market windows are open. Companies set on this path will need to be particularly clear about how the influx of capital post-IPO will enable them to accelerate, rather than simply maintain growth.

Multi-tracking maintain its importance

Rising volatility will ensure that multi-track will remain a useful strategy for companies, particularly if the level of capital within the system remains high. According to research conducted for our October 2014 issue of *Capital Confidence Barometer*, 80% of companies are considering undertaking M&A activity in 2015. We expect the use of global PE buyout dry powder, which stands at US$468.1b at the end of November, is at the highest level since 2008, to continue to fuel multi-track momentum.

Although the management attention required to successfully execute a multi-track strategy is not to be underestimated, keeping the options open can help to encourage strategic buyers to make their move; this ensures trade buyers remain engaged or conversely can demonstrate to management that an IPO will be the most secure route to value realization.

Sectors will polarize around growth or safety in investors' eyes

2015 is likely to see two investment strategies determining sector attractiveness. As markets become more volatile, investors may be more inclined to allocate a greater proportion of their investment portfolio to IPOs in safer and more stable sectors such as financials and real estate. In 2014, technology and financials were the lead sectors in terms of capital raised, followed by energy.

Growth will also remain a driver. And it is this motivation that will likely drive continuing strong interest in health care, which was the most active sector in terms of deal volume in 2014 and technology IPOs (the second highest in terms of deal volume). There is also strong interest in energy IPOs where the quest for energy independence is driving large scale infrastructure investment in the US and for the longer term in other markets, including the UK. All of these sectors are innovation-led and there is no doubt this will remain a key route to value.

Subtle will be the name of the game

Blockbuster IPOs captivate the market and the US$25b Alibaba IPO in September 2014 was no exception. However, in a typical year, IPOs are done by hundreds of companies, big and small, for the purpose of raising money for business expansion and other business needs.

Our analysis of the top-performing IPOs in 2014 shows that it is neither the biggest companies, nor the headline-grabbers that always deliver the value (in terms of higher returns). This is a fact that will not be lost on investors. In our analysis, the top three performing deals one month after IPO listing in 2014 were L & A International Holdings Ltd. and Millennium Pacific Group Holdings Ltd. (both of which are listed on Hong Kong's Growth Enterprise Market) and Lanzhou LS Heavy Equipment Co., Ltd. (listed on Shanghai Stock Exchange). From an investor perspective, there will continue to be interest in companies that have the right management team and strong value proposition, and for those coming to the market at the right time and selling their stock at the right price.

Maria Pinelli
Global Vice Chair
Strategic Growth Markets, EY

[1] We look at global IPOs with IPO proceeds above US$100m and calculated their market capitalization weighted average first-day returns (up to 3 December) and compared it to the MSCI World Index year-to-date returns (4.7% on 3 December).

Global IPO highlights

2014
(January – December 2014)[2]

Volume and value

1,206
deals globally
(35% increase on 2013)

US$256.5b
in capital raised
(50% increase on 2013)

Commentary

"We anticipate that 2015 may present a more challenging environment for global IPOs. Companies may be more cautious and are likely to want to keep their options open – running an M&A strategy alongside IPO plans and carefully assessing which market may deliver best valuation. The factors that drive investor interest will be the right management team, coming to the market at the right time and offering stock at the right price, with a strong value proposition."

Maria Pinelli
Global Vice Chair, Strategic Growth Markets, EY

Developed vs. rapid growth

Rapid-growth markets represent 47% of global IPO volume in 2014.

Financial investors dominate

PE and VC account for 27% of global IPOs (328 deals)

48% by proceeds (US$124.4b)

Three sectors trending

Health care	Technology	Industrials
193 deals	167 deals	142 deals
US$21.8b	US$50.2b	US$19.9b

Confidence continues to grow

VIX

October saw the VIX® at its highest level in two years but it has now stabilized, signalling increased investor confidence and liquidity.

There were 160 withdrawn and postponed deals in 2014, higher than the 121 deals in 2013.

Rising equity markets bodes well for 2015 IPO activity – MSCI World Index continues to rise above pre-crisis level.

87% of IPOs priced within or above expectations.[3]

US tops the leaderboard

US 37%

US exchanges led by global funds raised.

Top three deals in 2014

- **US$25.0b** Alibaba Group Holding Ltd.
- **US$6.0b** National Commercial Bank (NCB)
- **US$4.9b** Medibank Private Ltd

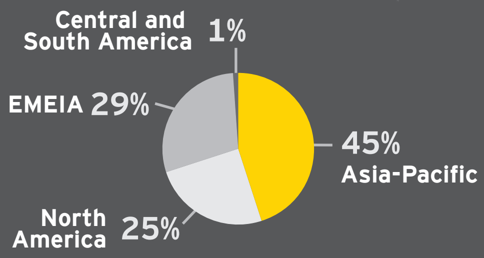
Asia-Pacific 32%

Asia-Pacific exchanges ranked second by global funds raised.

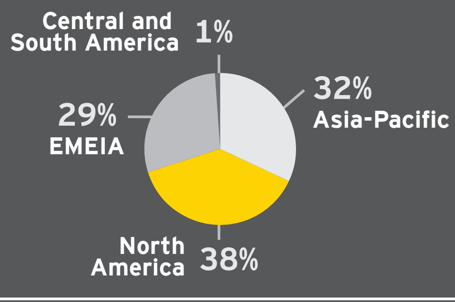
Europe 24%

European exchanges ranked third by global funds raised.

Number of deals



Value of deals

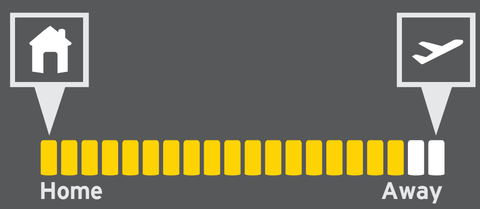


Top six exchanges by funds raised

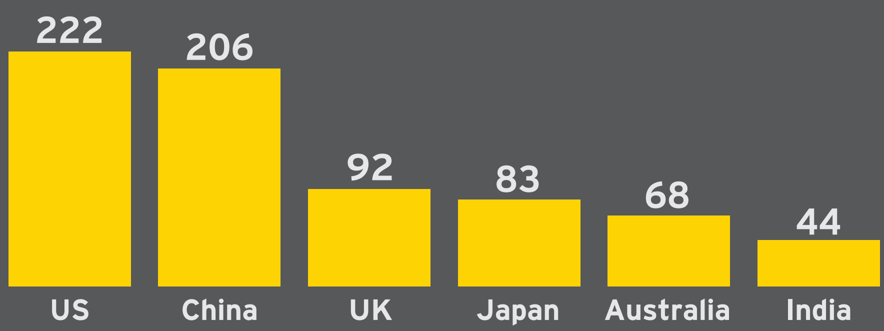
NYSE	HKEx	NASDAQ	LSE	ASX	Euronext
New York	Hong Kong	NASDAQ	London	Australian	Euronext
US$73.4b	US$30.0b	US$21.7b	US$19.4b	US$16.0b	US$12.4b
(116 deals)	(87 deals)	(172 deals)	(40 deals)	(75 deals)	(26 deals)

Home and away

Cross-border listings were 11% of global IPOs compared to 9% in 2013.



Top six countries by deal volume[4]



2. 2014 (January-December 2014) IPO activity is based on priced IPOs as of 4 December and expected IPOs by end of December.
3. Focus on open-price IPOs with deal value above US$50m.
4. Based on the listed company domicile nation.

An exceptional year for US markets

While 2013 saw a revival of IPOs in the US, 2014 was exceptional. At 288 IPOs, the number of listings was at its highest point since 2000 and up 27% from 2013. Capital raised also reached new highs, and should top out at around US$95.2b according to our estimates as of 4 December. As we predicted, Q4'14 saw deal volumes surge after the hiatus caused by the listing of Alibaba in September, with 29 IPOs in October and 27 IPOs in November, compared to 19 IPOs in September.

- US exchanges led the world in 2014 — NASDAQ by number of IPOs and NYSE by capital raised.
- With 67 IPOs raising US$40.8b, the US hosted more foreign IPOs in 2014 than any other market, accounting for 52% of all cross-border deals globally by deal number and 81% by capital raised.
- Financial sponsors remained a dominant feature in the US IPO deal landscape in 2014, accounting for 63% of deals by number and 72% by value. In real terms, this was the highest level of activity by deal number and value since 2001 (when EY started to keep global IPO data records).

IPOs outperformed market indices in 2014

IPO activity was generally very strong throughout 2014, averaging 24 deals a month. Although volatility in October 2014 caused the market to take a brief pause, the strong moment continues. The number of IPOs in Q4'14 is expected to exceed Q3'14 levels and we anticipate will raise capital close to US$17.3b via 68 IPOs.

With interest rates at persistently low levels and a lack of alternative investment options, IPOs remain attractive. As stock markets have been trending higher, IPOs have been outperforming market indices. Companies that have listed on US exchanges in 2014 have averaged year-to-date returns of 27.8%, compared to the S&P 500 at 12.2%. A trend in 2014 has been for companies to price at the lower end of their pricing range in order to match investor expectations, in Q4'14, 61% of deals[5] priced within or above range, whereas 39% of deals were priced below their initial pricing range. The number of withdrawn or postponed deals fell from 22 deals in Q3'14 to 20 deals in Q4'14, boding well for a strong start to 2015.

Financial sponsor-backed IPOs outperformed in 2014

PE- and VC-backed exits are a significant driver of IPO activity in the US as financial sponsors look to exit the investments they have held since before the economic downturn. These listings accounted for 63% over 2014 as a whole and 64% over 2013. By capital raised, financial sponsor-backed listings accounted for 67% of US capital raised in 2013, rising to 72% so far in 2014. Despite this slight decline in deal numbers, average proceeds from both PE- and VC-backed IPOs were much higher in 2014 (US$377m) compared to 2013 (US$287m), reflecting strong investor demand.

Health care was the leading sector

Continuing the 2013 trend, the leading sector in terms of deal volume in 2014 has been health care, accounting for 39% over the year as a whole. Within this broad category, the pharmaceuticals and biotechnology sub-sectors have been particularly noteworthy — with many companies encouraged by the favorable regulatory environment both for firms developing drugs for rare diseases and those choosing to take advantage of the confidential filing options under the JOBS Act. The health care equipment and supplies sub-sector also have been very prominent in terms of the number of deals and capital raised.

Technology, financials and energy sectors also feature strongly in the 2014 full year activity tables by deal number.

Cross-border activity continues to rise

Cross-border activity reached its highest levels since 2007 in the US this year. In 2014, 52% of cross-border deals globally by number and 80% by capital raised were listed on US exchanges, with most coming from Greater China (16 IPOs), Europe (26 IPOs, of which 8 IPOs are from the UK) and Israel (12 IPOs). Growing familiarity with US accounting regulations, the strength of US markets and access to capital — together with the success of the Alibaba IPO — are likely to encourage more cross-border IPOs on US exchanges going forward.

Prospects for 2015 strong though market may be more volatile

The US economy is expected to push ahead at a good pace in 2015. Continued monetary policy support coupled with solid fundamentals — in particular a strong jobs market, improvement in housing activity and consumer spending — should support continued gains in economic confidence. Markets expect the Federal Reserve Bank (the Fed) to increase interest rates toward the middle of the year should the recovery proceed at the current pace, with inflation and the labor market likely to act as triggers for the expected change of policy. Changes on the electoral front are further boosting confidence in anticipation of pro-business reforms.

Against this backdrop we can expect a strong start to 2015 for US IPOs, driven by a combination of low volatility, strong investor confidence and a robust pipeline with more than 100 companies getting ready to list. Of these, we expect around 60 to go public in Q1'15, raising an estimated US$22b. Although we may start to see some pressure on after-market performance, with the pricing gap between financial sponsors and institutional investors at a historically low level, the stage is set for the IPO window to remain open in the first quarter.

[5] There were 68 IPOs in Q4'14: 57 IPOs were priced and started trading by 3 December, while 11 are expected to be priced and trading by end of December. Of the 57 priced IPOs, 35 IPOs were priced above or within their estimated range (61%) while 22 IPOs were priced below their estimated range (39%).

US IPO highlights

2014

(January – December 2014)[6]

Volume and value

288 deals
(27% increase on 2013)

US$95.2b
in capital raised
(54% increase on 2013)

Key trends

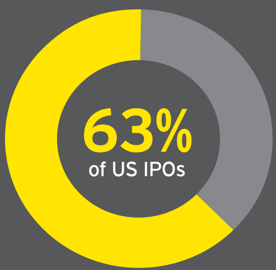
- The US led the world in 2014 in terms of the number of deals, the amount of capital raised and the volume of cross-border activity.
- As confidence in markets grew, IPOs were the standout investment of the year, out-performing stock market indices by 15.6%.
- Company leaders should anticipate that PE and VC investors will look to reinvest their 2014 gains in pre-IPO stocks in 2015.

Commentary

"In 2014, the US hosted more cross-border IPOs than any other region and its stock exchanges led the world in terms of the number of deals and capital raised. Concerns that this is a 2000-like bubble are over-played. Companies coming to the public markets are well led, well priced and have a good story to tell. Their stocks tend to outperform the market, attracting solid investor interest."

Jackie Kelley
Americas IPO Leader, EY

Financial sponsors drive US IPO market



PE and VC account for 63% of US IPOs (181 deals)

72% by proceeds (US$68.2b)

Three sectors trending

Health care	Technology	Financials
111 deals	47 deals	29 deals
US$9.9b	US$36.0b	US$15.7b

IPO pricing and performance[7]

+19.3% first-day average return

+27.8% increase in offer price vs. 3 December

US$390m median post-IPO market cap

Equity indices[8]

DJIA	+8.1% ▲
S&P 500	+12.2% ▲
VIX®	-9.1% ▼

IPO activity

	NYSE	NASDAQ
2014	116 deals (US$73.4b)	172 deals (US$21.7b)
2013	116 deals (US$45.8b)	109 deals (US$15.8b)

Cross-border activity from

Greater China **16 deals** (US$29.4b)
Europe **26 deals** (US$6.8b)
Israel **12 deals** (US$2.0b)
Other 8 countries **13 deals** (US$2.5b)

→ US

New registrations

Q4'14	44 deals, US$4.9b
Q4'13	67 deals, US$9.6b

6. 2014 IPO activity is based on priced IPOs as of 4 December and expected IPOs by end of December.
7. Pricing and performance are based on 277 IPOs on NYSE and NASDAQ that have been priced and started trading by 3 December. Data as of 4 December.
8. Year-to-date returns of equity indices as of 3 December.

Asia-Pacific drives global volumes higher

Asia-Pacific was a key player on the global stage in 2014, representing around 45% of global deals, and 32% of global proceeds. The region continues to be characterized by the breadth and variety of opportunities available for companies ready to list. In 2014, Asia-Pacific was home to six of the world's top ten exchanges by deal volume, and four by capital raised.

- With 546 IPO listings in 2014, Asia-Pacific saw more companies go public on more exchanges than any other region in 2014. Deal number rose 45% compared to 2013.
- Five of the largest ten global deals in 2014 took place on Asia-Pacific exchanges, spread across Australia, Hong Kong and Tokyo.
- Proceeds rose 38% to US$81.4b in 2014 compared to 2013, with the Australian and New Zealand markets performing particularly strongly.

Japan ends year on a high

Following mid-year uncertainty caused by a sales tax increase in April and a somewhat faltering economic backdrop, Japan's IPO market has seen a strong end to the year reflected in both deal volume and capital raised. The Tokyo Stock Exchange Main Market saw a total of 14 new IPOs in Q4'14, slightly more than the total for the first three quarters, and bringing the total number of new listings in 2014 to 26 deals, raising US$10.4b. Proceeds for the quarter were boosted by the IPO of Recruit Holdings Co., Ltd., Japan's biggest staffing agency, which raised around US$2.0b and whose bullish pricing helped raise market confidence. Elsewhere, investors continue to look for high growth potential found in the IT, media and technology sectors.

The Japanese Government's growth strategic plan (also well-known as "Abenomics") has had a positive impact on the Tokyo markets over the past two years. This, coupled with Bank of Japan's strong stimulus measures, is likely to support a steady economic recovery through 2015, and further improve investor sentiment.

Australian IPOs defy economic uncertainties

Despite a weak economic backdrop, Australian IPO markets had a strong Q4'14 with 34 new listings raising US$7.5b in proceeds. In fact, 2014 saw 75 IPOs raising US$16b, the highest capital raised since the last peak in 2005 (152 IPOs raising US$10.2b). Privatizations of government owned and operated services helped fuel the pipeline, providing the country's standout IPO of 2014 in the form of Medibank Private Ltd. The privatization of the health insurance company was the fourth largest IPO of the year globally, raising US$4.9b. This listing is also the second largest IPO ever on the Australian Securities Exchange since the US$10b listing of Telstra Corp. Ltd. in 1997.

Investor interest has been driven to a large extent by demographic shifts. An aging population and rising expenditure on health care has led to strong performance in this sector. In addition, growth in the middle class has ensured that any company demonstrating significant exposure to this group can expect to attract investor interest.

Economic performance is expected to remain below trend for some time as the economy suffers from lower mining investment and weaker government spending; however, there continues to be a strong pipeline of companies looking to go public (IPO) in 2015. Another likely trend is an increase in cross-border listings from small/mid-cap services and technology companies from countries such as Singapore and China.

Southeast Asia eyes foreign listings

Although not comparable to the levels experienced by Australia and Japan, relative political and economic stability in Southeast Asia has led to a steady flow of IPOs, which have contributed to the wider region's success.

Efforts also are being made to attract cross-border listings in 2015. Singapore has opened a liaison office in India to attract more Indian companies to list in the country and Thailand and Mauritius are also working on regulations to promote more foreign listings.

More to come from Asia-Pacific

After a record year for IPOs in Australia, a rejuvenated market in Japan and a steady flow of listings across China and Southeast Asia, the outlook for the IPO market in Asia-Pacific is very positive. Q4'14 was by far the strongest quarter of the year by deal numbers and capital raised, suggesting investor confidence is rising. Improving macroeconomic conditions across major parts of the region are likely to support demand and boost investor sentiment further. With IPOs in the region delivering average returns of around 49%, much higher than equity market indices, we expect IPO stocks will remain attractive as we move into 2015. We predict there will be around 94 IPO deals in Q1'15, raising close to US$10b.

Asia-Pacific IPO highlights

2014

(January – December 2014)[9]

Volume and value

546 deals
(45% increase on 2013)

US$81.4b
in capital raised
(38% increase on 2013)

Key trends

- Investors are focusing on companies in sectors with high growth potential, including health care and technology.
- The importance of financial sponsors is diminishing outside the larger deals.
- Despite challenging economic conditions in some markets, IPO prospects are strong across the region.

Commentary

"The IPO market in Asia-Pacific has had a strong year, with very high deal volume and a healthy increase in capital raised across the region. Although many economies are still some way off a full economic recovery, investor confidence remains high and IPO volumes continue to rise in many markets, and some markets are on track to reach record-breaking levels. The strong close to 2014 means conditions are right for a good start in 2015."

Ringo Choi
Asia-Pacific IPO Leader, EY

Top five exchanges by funds raised

HKEx	ASX	TSE	SZSE	SSE
Hong Kong	Australia	Tokyo	Shenzhen[10]	Shanghai
US$30.0b	US$16.0b	US$10.4b	US$5.8b	US$5.2b
(87 deals)	(75 deals)	(26 deals)	(76 deals)	(39 deals)

Six sectors trending

Industrials	Technology	Consumer products	Materials	Consumer staples	Real estate
94 deals	90 deals	68 deals	54 deals	47 deals	39 deals
US$9.2b	US$10.6b	US$5.7b	US$4.5b	US$7.3b	US$14.4b

IPO pricing and performance[11]

+19.9% first-day average return

+48.5% increase in offer price vs. 3 December

US$183m median post-IPO market cap

Equity indices[12]

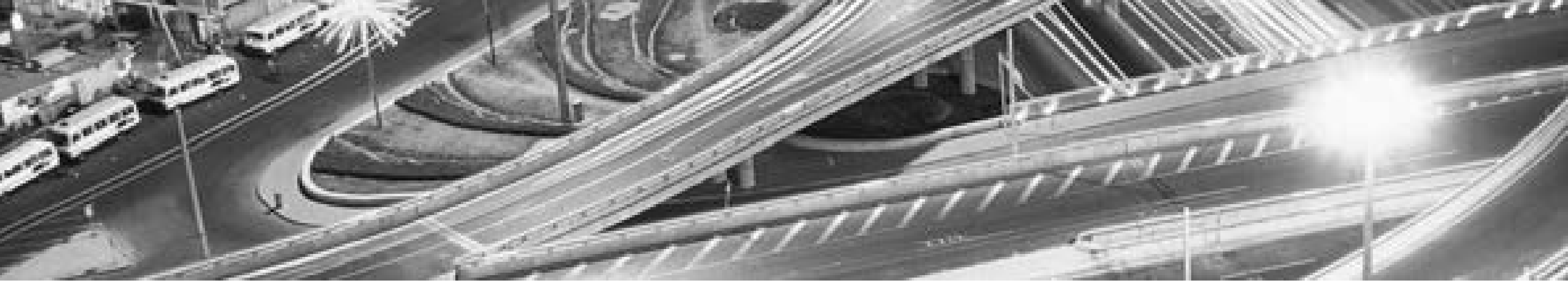
HANG SENG	+0.5% ▲
SHANGHAI COMP	+31.4% ▲
NIKKEI 225	+11.4% ▲
FTSE STRAITS TIMES	+4.3% ▲
ASX 200	-0.6% ▼

Cross-border IPOs

Greater China issuers had **16 deals** that raised US$29.4b in total on US exchanges.

Singapore Mainboard saw **2 cross-border deals** (from Japan and Indonesia) and **3 deals** on the junior market, Catalist (from Malaysia, South Korea and Australia).

9. 2014 (January-December 2014) IPO activity is based on priced IPOs as of 4 December and expected IPOs by end of December.
10. Shenzhen Stock Exchange includes IPO listings from the Mainboard, SME board and ChiNext.
11. Pricing and performance are based on 474 IPOs on Asia-Pacific exchanges that have started trading by 3 December. Data as of 4 December.
12. Year-to-date returns of equity indices as of 3 December.



Solid performance in Greater China

Despite a slowing growth rate, reduced retail activity and concerns over inflation and the property market, it has been a strong year for IPO activity in Greater China as financial markets have continued to liberalize. In 2014, 233 IPOs have raised combined capital of US$41.7b, up 118% by deal number and 89% by capital raised on 2013. [13]

- In 2014, Greater China exchanges accounted for 19% of global IPOs by number of deals, and 16% by capital raised.
- Investor sentiment is running high across the region, reflected by high pricing and strong returns.
- The Hong Kong Stock Exchange continues to perform well on the global stage, ranking third behind NASDAQ and New York Stock Exchange by deal numbers and second behind the New York Stock Exchange, by capital raised.

Controlled success for mainland China

2014 IPO activity in mainland China has been highly policy-driven as the China Securities Regulatory Commission (CSRC) continues to keep a firm hand on new listings. The re-opening of mainland exchanges at the start of year, along with strengthened IPO regulation, led to a flood of new listings in Q1'14, only to be halted in mid-February as the CSRC suspended new listings to prevent overheating in capital markets. When the suspension was lifted at the end of June, the region saw an uptick in Q3'14 and Q4'14. Overt market control has boosted confidence and ensured a steady flow of IPO activity, which has provided strong returns for investors. A large majority of IPOs in Q4'14 have risen by nearly the maximum 44% allowed on the first day of trading.

Popular with Chinese investors, industrials remain the dominant sector on mainland exchanges, accounting for 25% of proceeds and 31% of deals in 2014. In addition, the technology sector also is booming, buoyed by government support and encouragement for innovation. China also is host to the world's largest internet population, whose influence was evidenced this year by the record-breaking IPO of Chinese e-commerce site, Alibaba on New York Stock Exchange.

Another robust year for Hong Kong

Large IPOs have laid the foundation for a robust IPO market for Hong Kong in 2014, including two large energy sell-offs: HK Electric Investments Ltd., which raised US$3.1b in January, and China's CGN Power Co. Ltd , which raised US$3.2b in early December. Proceeds have been matched by volumes, as the Hong Kong Main Market has hosted 87 IPOs and raised US$30.0b, placing it third in the world by number of deals and second by capital raised.

Hong Kong continues to attract cross-border listings, particularly from mainland Chinese firms that often use the exchange to accelerate their listing process at a time when there is a considerable backlog on mainland exchanges. IPO pricing improved in Q4'14 with 64% of IPOs[14] pricing at the upper end of their estimated range compared to just 35% in Q3'14, reflecting positive investor sentiment. Concerns over political tensions in the region have had a cautionary effect on investors; however, fears that it would depress pricing were over-played and capital market sentiment remains good.

Shanghai-Hong Kong Stock Connect

In November, the much anticipated Shanghai-Hong Kong Stock Connect was launched, giving international investors direct access to Shanghai stocks, and mainland investors access to Hong Kong-listed companies. It is anticipated that the impact of the program will not crystallize for some time, but it has already sparked an influx of money into Hong Kong's stock market, further supporting the IPO environment.

Positive outlook for 2015

Chinese authorities are facing an increasingly complex set of challenges as they continue to navigate the tricky balance between growth and economic reform. Hong Kong also faces downside risk from any broader contagion of social issues, in the event that the recent student movement in Hong Kong should significantly affect the business environment there.

Against this backdrop, we expect IPO activity in Greater China to remain stable in H1'15, with the pipelines for both Hong Kong and mainland exchanges looking strong. Investors are optimistic regarding the Greater China stock market due to the expectation of further monetary easing and a favorable public policy environment in 2015. While A-share investors continue to make large profits from IPOs, we anticipate that investor confidence is likely to remain high.

[13] The 2014 Greater China exchanges' IPO activity total consist of IPOs on Hong Kong Main Market (87 IPOs, US$30.0b); Hong Kong Growth Enterprise Market (17 IPOs, US$164m); Shanghai Stock Exchange (39 IPOs, US$5.2b); Shenzhen Stock Exchange – the Mainboard, the SME board and ChiNext (76 IPOs, US$5.8b); and Taiwan Stock Exchange (14 IPOs, US$487m). There were no listings on the Shanghai Stock Exchange or Shenzhen Stock Exchange in 2013.

[14] Of the 23 IPOs on Hong Kong Main Market in Q4'14, 14 IPOs have been priced and started trading by 3 December. 9 of these 14 IPOs (64%) were priced at upper end of their estimated range. There are a further 9 IPOs expected to be priced and trading by end of December.

Greater China IPO highlights

2014

(January – December 2014)[15]

Volume and value

Hong Kong Main Market
87 deals
(14% increase on 2013)

Shanghai
39 deals[16]

Shenzhen
76 deals[17]

Hong Kong Main Market
US$30.0b
(40% increase on 2013)

Shanghai
US$5.2b[16]

Shenzhen
US$5.8b[17]

Key trends

- While the CSRC controls new listings in mainland China, demand outstrips supply for IPOs and robust returns are likely to continue.
- Greater China investors show clear sector preferences: consumer products are the most active in Hong Kong, whereas industrials and technology lead the way on mainland exchanges.
- Mainland companies continue to list in Hong Kong to accelerate their listing and tap into Hong Kong's distinct investor pool.

Commentary

"Greater China has witnessed a strong end to the year with IPO activity in Q4'14 driven by easing monetary conditions and rising confidence, which has triggered a spate of large IPOs. The combination of favorable government policy and the impact of the Shanghai-Hong Kong Stock Connect means investors are broadly optimistic about prospects for Greater China in 2015."

Terence Ho
Greater China IPO Leader, EY

Six sectors trending

Industrials	58 deals	US$6.7b
Technology	33 deals	US$2.8b
Consumer products	29 deals	US$2.9b
Materials	26 deals	US$3.5b
Consumer staples	23 deals	US$4.8b
Energy	39 deals	US$7.5b

IPO pricing and performance[18]

Hong Kong Main Market

+2.8% first-day average return

+3.8% increase in offer price vs. 3 December

US$428m median post-IPO market cap

Shanghai and Shenzhen

+38.3% first-day average return

+132.9% increase in offer price vs. 3 December

US$285m median post-IPO market cap

Equity indices[19]

HANG SENG	+0.5% ▲
SHANGHAI COMP	+31.4% ▲
SHENZHEN COMP	+37.4% ▲

Mainland China's IPO pipeline

40% are expected to be PE- or VC-backed.

More than half of companies are planning to list on the Shenzhen Stock Exchange.

642 companies are in the CSRC pipeline.

15. 2014 IPO activity is based on priced IPOs as of 4 December and expected IPOs by end of December.
16. IPO activity on Shanghai Stock Exchange and Shenzhen Stock Exchange was suspended from November 2012 to December 2013 by the CSRC.
17. Shenzhen Stock Exchange includes IPOs on the Mainboard, the SME board and ChiNext.
18. Pricing and performance are based on 77 IPOs on Hong Kong Main Market and 111 IPOs on Shanghai and Shenzhen Stock Exchanges that first started trading by 3 December. Data as of 4 December.
19. Year-to-date returns of equity indices as of 3 December.

EMEIA IPO market momentum continues

2014 was a record year for EMEIA IPOs, with significant increases in deal volume and capital raised as the region opened its doors to IPOs. Globally, EMEIA ranked second by number of deals and third by proceeds, raising US$74.9b from a total of 353 IPOs — the highest IPO activity recorded since 2007 by capital raised.

- EMEIA boasted 4 of the top 10 global stock exchanges by capital raised in 2014 and was home to the second-largest IPO globally in 2014.
- Financial sponsor-backed exits accounted for 21% of IPO volume and 47% of proceeds in 2014 — the highest level since 2007.
- There was a strong uptick in activity on Middle East exchanges as capital markets relaxed their rules to encourage domestic IPOs and foreign investments.

Even with 10% fewer deals across the region in Q4'14 compared to the previous quarter, proceeds were up 74%, with the market benefiting from a spate of larger IPOs, such as Saudi Arabia's National Commercial Bank (NCB) in November, which raised US$6b — the third-largest deal of 2014.

In Europe, a combination of strengthening equity markets, the sustained low interest rate environment and growing investor confidence contributed to a surge in capital raised in 2014, with US$62.3b in proceeds across 259 deals for the year. With continued expectations of quantitative easing by the European Central Bank and bond yields close to all-time lows, investors yearning for higher returns shifted toward equities — and IPOs in particular.

Spate of larger IPOs pushed up median values
Despite the eurozone's slower-than-expected recovery and ongoing geopolitical tensions in the EMEIA region, volatility fell again in Q4'14, creating a positive environment for IPO book-building and increasing the probability of IPOs being successfully priced and completed. Markets were receptive to vendors looking to list on EMEIA exchanges, with 97% of IPOs pricing within or above the initial pricing range and EMEIA Main Market IPOs averaging first-day returns of 12.5%. Median deal size grew from US$51m to US$98m, due to the timing being right for a number of large IPOs, such as Netherland's PE-backed NN Group NV, which raised US$2.4b on the Euronext Amsterdam market in Q2'14, and Germany's Rocket Internet AG raising US$1.8b in Q4'14. Larger deal sizes have been a growing trend on EMEIA main markets since 2011.

IPO preferred exit route for financial sponsors
With the performance of main European indices supporting higher valuations and financial sponsors keen to realize value from PE- and VC-backed investments, IPOs are seen as a highly attractive exit route. Financial sponsor-backed IPOs raised US$35.6b in 2014, bringing the total number of PE- and VC-backed deals in the EMEIA region to 75 IPOs — the highest level by capital raised since 2007. Financial sponsor-backed listings accounted for 21% of deal volume and 47% by deal value of all EMEIA IPOs.

Sector rotation as investor appetite changes
EMEIA IPOs continued to come from a range of sectors, with health care taking the lead by deal volume in 2014 (46 IPO deals, up 132% from 2013), followed by the industrials sector (35 IPOs) and financial and materials sectors, each with 34 IPOs. By proceeds, the financials sector was the star, raising US$16.5b in total from 34 IPOs, ahead of retail (US$9.5b via 23 IPOs), real estate (US$9.5b via 31 IPOs), industrials (US$8.5b via 35 IPOs) and media and entertainment (US$7.0b via 29 IPOs).

Middle East IPO market remains positive
In spite of serious geopolitical concerns in parts of the region, IPO activity has been strong, driven by improved economic conditions, better liquidity, higher valuations and growing investor confidence. We have seen an increase in IPOs from 2013 to 2014 in both the number of deals (19 IPOs, up 27%) and capital raised (US$11.2b, up 348%). The market also has benefited from the easing of regulatory requirements and a significant backlog of IPOs coming to market in Q4'14, including Dubai's Emaar Malls Group LLC US$1.6b listing in October and the heavily oversubscribed National Commercial Bank IPO in Saudi Arabia in November.

PE is driving activity in Africa
In Africa as a whole, we have seen increased IPO activity in 2014 (20 IPOs, US$1.1b) as a result of the significant amount of PE-backed companies looking to exit. There also has been continued IPO activity in the financials, real estate and materials sectors. While more volatility started to appear in Q4'14, as long as markets remain receptive and relatively stable, the outlook for Q1'15 is positive.

India poised for higher levels of activity
A number of positive macroeconomic trends indicate that the IPO market in India is set to rebound. Although IPO proceeds are down on 2013 (US$295m in 2013 compared to US$263m in 2014), the volume of deals was up slightly from 38 to 43 IPOs in 2014, off the back of a supportive new government and improving fundamentals. Economic growth is at a two-year high, businesses are in need of capital and pent-up demand combined with favorable secondary markets and a backlog of financial sponsors waiting to exit signals a revival of IPO activity in 2015, despite some lingering retail investor uncertainty.

Positive outlook for EMEIA in 2015
Across EMEIA, there is a robust IPO pipeline for the coming year, with the trend for increased volume and higher proceeds expected to result in more than 70 deals and proceeds in excess of US$12b in Q1'15. With strong investor confidence and a solid pipeline of IPO-ready businesses across a broad range of geographic markets and multiple sectors, the uptick in IPO activity looks set to continue.

EMEIA IPO highlights

2014

(January – December 2014)[20]

Volume and value

Main markets:
196 deals
(53% increase on 2013)

Junior markets:
157 deals
(40% increase on 2013)

Main markets:
proceeds US$69.3b
(112% increase on 2013)

Junior markets:
proceeds US$5.6b
(239% increase on 2013)

Key trends

INVESTOR CONFIDENCE

- PE- and VC-backed IPO exits remain a key driver of IPO activity in EMEIA – reaching pre-crisis levels.
- Positive first-day returns and YTD performance are buoying investor confidence and IPO activity.
- Investor appetite has moved away from real estate; health care leading by deal volume and financials by proceeds.

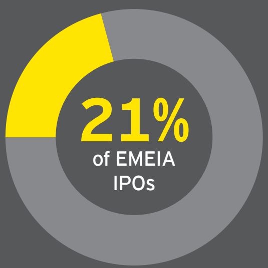
Commentary

"EMEIA saw the strongest growth in IPO activity globally in 2014. The IPO window has opened at many EMEIA stock exchanges. IPO as a strategic exit option for PE and VC is at a record high. Driven by supportive monetary conditions, strong investor confidence, high valuations and low volatility, there is a robust IPO pipeline and healthy investor appetite across the region. Despite ongoing geopolitical tensions, we believe the fundamentals are in place for strong and steady IPO activity in 2015."

Dr. Martin Steinbach
EMEIA IPO Leader, EY

Top five exchanges by funds raised

LSE	Euronext	Madrid	Tadawul	NASDAQ OMX
London Main Market	Euronext	Bolsa de Madrid	Saudi Tadawul	NASDAQ OMX
US$19.4b	US$12.4b	US$7.2b	US$6.7b	US$5.4b
(40 deals)	(26 deals)	(8 deals)	(6 deals)	(14 deals)
Median deal size US$344m	Median deal size US$53m	Median deal size US$694m	Median deal size US$181m	Median deal size US$233m



Financial sponsors drive EMEIA IPO market

PE and VC account for 21% of EMEIA IPOs (75 deals)

47% by proceeds (US$35.6b)

Three sectors trending

Health care	Industrials	Financials
46 deals	35 deals	34 deals
US$6.2b	US$8.5b	US$16.5b

IPO pricing and performance

Main markets[21]

+12.5% first-day average return

+17.3% increase in offer price vs. 3 December

US$276m median post-IPO market cap

Junior markets[21]

+11.3% first-day average return

+7.3% increase in offer price vs. 3 December

US$38m median post-IPO market cap

Equity indices[22]

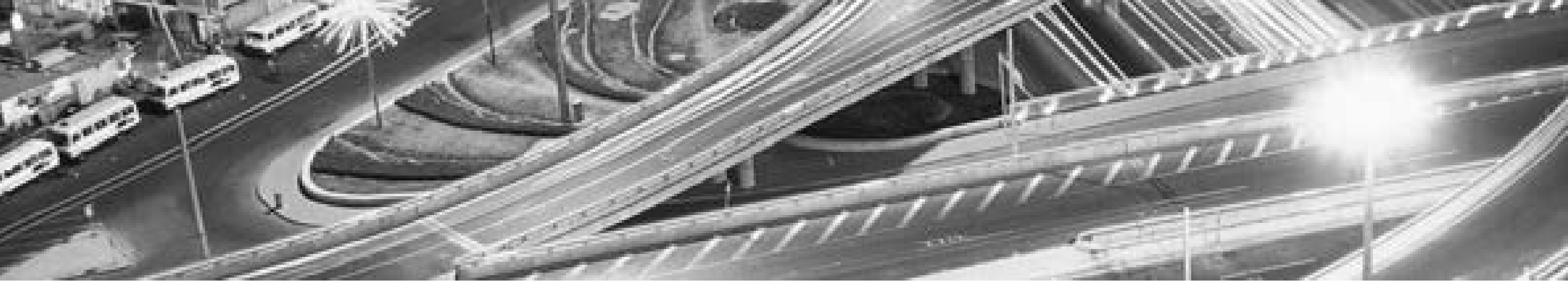
FTSE 100	-0.5% ▼	BSE SENS	+34.3% ▲
DAX	+6.1% ▲	JSE All share	+7.8% ▲
CAC40	+2.2% ▲	VSTOXX	-0.7% ▼
MICEX	+9.6% ▲		

Cross-border IPOs

7% of EMEIA issuers are listed in EMEIA exchanges and **10%** are listed on US exchanges.

17% of EMEIA issuers conducted cross-border deals.

20. 2014 (January-December 2014) IPO activity is based on priced IPOs as of 4 December and expected IPOs by end of December.
21. Pricing and performance are based on 187 IPOs on main markets and 148 IPOs on junior markets that have started trading by 3 December. Data as of 4 December.
22. Year-to-date returns of equity indices as of 3 December.



UK sees challenging end to a strong year

2014 has been a solid year for UK IPO activity on the Main Market and the Alternative Investment Market (AIM). Altogether, deal proceeds exceeded 2013 levels by 67% and deal numbers were 53% higher compared to the prior year, making 2014 the best year since 2007. However, Q4'14 was challenging for the London Main Market, with activity levels much reduced compared to earlier in the year. Confidence was impacted by soft conditions in the eurozone, global macroeconomic volatility, geopolitical tensions, concerns over Ebola and fears the market could be "overheating."

- Although valuations came under threat in Q4'14, particularly as M&A activity increased, investors remained interested in well-priced IPO stocks with a strong management team and value story.
- 2014 saw the London Main Market ranked fourth globally by capital raised, accounting for 8% of global capital raised, while London AIM ranked sixth globally by deal number, accounting for 6% of global IPOs, which mirrors 2013 performance.
- The UK Main Market and AIM accounted for 32% of EMEIA IPOs and 32% by capital raised.

London exchanges have broad cross-sector appeal and lead in Europe

Although UK IPO activity tailed off somewhat in Q4'14, the London Main Market and AIM performed well compared to their regional neighbors, demonstrating there is strong investor appetite for good stocks that are sensibly priced. There were 22 IPOs on the London Main Market and AIM in Q4'14, more than in any other European market, across a broad spread of industries. There were three Main Market IPOs in Q4'14, each came from a different sector — financials, retail and real estate. Likewise, the 19 AIM listings were all from different sectors — testifying to the breadth of investor appetite for IPOs. The listing of Jimmy Choo plc during this quarter took the yearly tally of retail IPOs on the London Main Market to 10 listings, making retail the most active sector by deal numbers in 2014.

Cross-border interest is strong

Building on its track record as a successful launch-pad for good businesses, 2014 has seen 28 international businesses list in London, with the AIM market performing particularly strongly. Areas of strength include the four Israeli digital media businesses that listed on the London markets this year, highlighting the importance that issuers place on observing a "well-trodden path" when considering their capital raising options.

Volatility has cast a shadow as companies consider all the options

The Main Market saw a wave of cancellations in Q4'14 (3 deals), all of which cited volatile market conditions. Virgin Money Holdings plc initially cancelled its IPO plans but was successfully revived in November. Not all withdrawals were a result of wavering confidence however. We also saw the withdrawal of British Roadside Assistance Company (RAC) and United Biscuits Holdings Ltd., both of which opted for trade sales. Moving forward, we expect to see an increasing number of companies running the dual-track processes, given the improving M&A market and stabilizing economic environment.

Financial sponsors remain active

The UK market continues to be dominated by financial sponsor-backed IPOs. In 2014, financial sponsor-backed deals accounted for 29% of IPOs in the UK by volume and 69% by capital raised. Two of the top ten IPOs in Q4'14 were PE- or VC-backed: Virgin Money Holdings (this quarter's largest deal by a considerable margin) and Fever-Tree Drinks.

As financial sponsors' assets reach the end of the investment cycle, which began before the global financial crisis, there are a good number of high-quality companies under PE-ownership looking to exit in the next 12 to 24 months. With investor appetite for this type of offering still strong, we expect the number of financial sponsor-backed IPOs to remain high into Q1'15.

2015 will offer choice for vendors; year-end may be more active

UK economic momentum remains steady. The IMF anticipates growth will surge to 3.2% for the full year 2014, suggesting 2015 will start strong. This should help bolster investor confidence, which has been fickle in the face of recent market volatility.

While caution remains on pricing, it is inevitable that some businesses will not achieve the valuations they desire as we move into 2015. While we are still seeing a healthy pipeline of businesses preparing to list in Q1'15, there may need to be an improvement in current market sentiment to get some of them over the finishing line. We predict there will be around 22 listings in Q1'15 raising capital in the region of US$4b.

With M&A valuations catching up with capital market valuations, and the general election likely to take place in Q2'15, many businesses may choose to keep their options open in the first half of the year before actioning their IPO plans in Q4'15 after the traditionally quieter summer break in Q3'15.

UK IPO highlights

2014

(January – December 2014)[23]

Volume and value

London Main Market
40 deals
(111% increase on 2013)

London AIM
72 deals
(33% increase on 2013)

London Main Market
US$19.4b
(50% increase on 2013)

London AIM
US$4.2b
(241% increase on 2013)

Key trends

- With investors focused on valuations, companies are keeping their options open. Dual-track will be a feature in 2015.
- London investors are sector agnostic. Their primary focus is on the right price, good management team and strong growth potential.
- Financial sponsors will continue to dominate the IPO markets as they seek to realize value from investments made before the global economic downturn.

Commentary

"2014 has been a good year for the UK IPO market, the best year since 2007. Domestic economic strength has been counterbalanced by global macroeconomic volatility in the second half of 2014, which contributed to a number of cancellations in Q4'14 and other planned IPOs choosing the M&A route. We expect 2015 to be a good year – perhaps not at the level of 2014 – with limited activity in Q2 and Q3 due to the general election and traditionally quiet summer period."

David Vaughan
UK and Ireland IPO Leader, EY

Financial sponsors drive UK IPO market

PE and VC account for 29% of UK IPOs (33 deals)

69% by proceeds (US$16.3b)

Three sectors trending

Retail
16 deals
US$8.1b

Health care
14 deals
US$2.1b

Technology
13 deals
US$1.5b

IPO pricing and performance

London Main Market[24]

+2.8% first-day average return

-0.3% increase in offer price vs. 3 December

US$846m median post-IPO market cap

Alternative Investment Market[24]

+11.9% first-day average return

+5.5% increase in offer price vs. 3 December

US$85m median post-IPO market cap

Equity indices[25]

FTSE 100	-0.5% ▼
FTSE 350	-0.5% ▼
FTSE AIM ALL SHARE	-16.4% ▼

Cross-border activity in 2014

Russian Federation had **1 deal** raising US$1b on the London Main Market.

Israel had **4 deals** raising US$228m on the London AIM.

China had **3 deals** raising US$11m on the London AIM.

Top three IPOs in 2014 by capital raised

AA plc	B&M European Value Retail SA	Lenta Ltd.
raised **US$2.4b** (UK, industrials)	raised **US$2.0b** (UK, retail)	raised **US$1.0b** (Russia, retail)

23. 2014 IPO activity is based on priced IPOs as of 4 December and expected IPOs by end of December.
24. Pricing and performance are based on 40 IPOs on London Main Market and 63 IPOs on AIM that have been priced by 3 December. Data as of 4 December.
25. Year-to-date returns of equity indices as of 3 December.

EY | Assurance | Tax | Transactions | Advisory

EYG no. CY0837

ED None

Find out more about future IPO prospects

For more information on global IPO performance by quarter and year, and how IPO market looks set to develop in 2015, visit the EY Global IPO Center of Excellence:

ey.com/ipocenter

*Throughout this report, 2014 January to December IPO activity is based on priced IPOs as of 4 December and expected IPOs by end of December. Source of data: Dealogic and EY.