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2017 IPO STUDY
Executive Summary

Welcome to this fourth edition of Proskauer's IPO Study. In it you will find our analysis of market practices and trends for U.S.-listed initial public offerings (IPOs). Our proprietary database and analyses now cover 376 IPOs that priced between 2013 and 2016.

The 2016 IPO Market\(^1\)

The U.S. IPO market got off to a very slow start in 2016. No IPOs priced in January. The market remained muted throughout the year as only 30 IPOs priced in the first half of 2016, a 60% decrease from 75 IPOs for the same period in 2015 and the lowest since 2009. In total, 79 IPOs priced in 2016, which is roughly the number that priced in the first half of 2015 alone. A number of factors, including Brexit and the U.S. presidential election, contributed to market slowness and volatility. The average base deal value in 2016 was $214 million, the same as 2015, both of which were the lowest average base deal value since 2005.

2017 So Far\(^1\)

2017 is shaping up to be a much better year than 2016, with 20 IPOs priced through the first quarter of 2017 compared to only six IPOs for the same period in 2016. Nevertheless, the start is still slower than recent years, with fewer IPOs in the first quarter than in any year from 2010 to 2015. We have seen relatively fewer health care IPOs than in previous years. Energy & Power (E&P) and Technology, Media and Telecommunications (TMT) were the sectors in the first quarter with the most IPOs. The biggest news of the year to date has been the IPO of Snap Inc. (case study on page 43), which had a base deal value of $3.4 billion. This is the largest IPO since Alibaba in 2013 ($21.8 billion base deal). In addition, there have been indications that the SEC may take steps to make the regulatory environment more attractive for IPOs in 2017 and the near future. Priorities may include greater access to the U.S. capital markets for non-U.S. companies, as well as more investment opportunities for “Main Street” investors in IPOs. The timing and impact of any regulatory changes is uncertain.

Key Takeaways

Two relatively quiet years for mega-IPOs and decrease in average base deal size

In 2014, we reviewed nine mega IPOs that had base deal values of more than $1 billion and constituted 8% of IPOs in our study. In 2016 (similar to 2015), our study included only three $1 billion+ IPOs, comprising only 4% of the overall IPOs in our study. At the same time, for the second year in a row, we saw the average and median deal size decrease (average base deal size of $214 million in 2016 compared to $259 million in 2014, a 17% decrease)\(^1\). There is speculation that the Snap IPO will open the door to more mega-IPOs in 2017, particularly as a number of significant prospective IPOs have been announced or are rumored to be in the pipeline.

Greater market acceptance of less financial information

The market appears to be more comfortable with less financial information from emerging growth companies (EGCs). In 2016, almost five years since the passage of the JOBS Act, 75% of EGCs included two instead of three years of audited financial statements (a 92% increase since 2013) and 60% of EGCs included only two years of selected financial statements (a 67% increase since 2013). Only 15% included five years of selected financial statements in 2016, compared to 28% in 2013. We also saw a 47% increase in foreign private issuers (FPIs) including two years, instead of three years, of audited financial statements since 2013, up from 43% to 63%.

Testing-the-waters communications predominately used by health care and TMT issuers

While underwriters and issuers appear to have become comfortable with using pre-IPO testing-the-waters

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\(^1\) Source: Dealogic: SEC registered IPOs with initial deal value greater than $50mm+ and excludes BDCs, BCCs/SPACs and REITs.

Trend statistics presented in the executive summary are from our four year analysis dataset, which excludes FPIs and MLPs for comparability purposes.
communications to obtain feedback from potential investors, the use of these communications appears to be predominantly by biotech and biopharm issuers in the health care sector and TMT issuers. In our 2016 study, 100% of disclosed testing-the-waters communications were by issuers in these sectors. Similarly, from 2013 to 2016, 90% of the issuers that disclosed testing-the-waters communications in our study were in these sectors. Issuers in these sectors may make greater use of testing-the-waters communications because they often have shorter operating histories, lack revenue or net income or have untested marketing stories.

**Continued decrease in SEC comments.....**

We continue to see a decrease in the average and median number of SEC comments in the first comment letter. Since 2013, there has been a 40% decrease in the number of first-round comments. This decrease appears to be partially related to issuers receiving fewer boilerplate comments, i.e., comments that are not issuer specific and relate more to general process requirements. In addition, the only JOBS Act-related comment that appears to still be issued consistently is the request for testing-the-waters communications materials. 2016 also saw a significant decrease in the maximum number of comments issued in a first comment letter, decreasing to 55 from 78 in 2015 and a three-year average of 85 from 2013 to 2015. The average number of comment letters received by an issuer during the SEC review process was four. The average number of comments in the first, second and third comment letters were 25, six and four, respectively.

**.....but issuers took longer to go public in 2016**

Although the number of SEC comments has continued to decrease over the last few years, the average time that it took issuers from first submission / filing to pricing significantly increased in 2016 to 221 days, up from 156 days in 2015 and 123 days in 2014. This development was likely driven by general market volatility and uncertainty created by the geopolitical environment with issuers and underwriters taking a wait-and-see approach.

**SEC hot button comments driven by sector**

Certain types of comments have become SEC staff hot buttons for different sectors. For example, from 2013 to 2016, 66% of health care issuers received a cheap stock comment, 83% of TMT issuers received a revenue recognition comment, 61% of industrials issuers received an operating segment comment, and, from 2014 to 2016, 70% and 64% of TMT and E&P issuers, respectively, received a back-up support request comment. In the health care sector, cheap stock comments are likely more common given the significant use of equity as a compensation tool and the continuous fundraising activity in which biotech/biopharma issuers are engaged. In the TMT sector, revenue recognition comments reflect the complex accounting issues raised by contractual arrangements typical for TMT issuers. Further, we suspect that industrials and consumer issuers are more likely to receive operating segment comments given the potential for these issuers to have multiple discrete business and geographic units.

**SEC focused on non-GAAP financial measures**

IPOs have not been spared the SEC’s increasing scrutiny of the use of non-GAAP financial measures. In 2016, 47 of 66 (71%) issuers in our study disclosed at least one non-GAAP measure. Of these 47 issuers, 26 (55%) received at least one comment on non-GAAP measures. In our study, sponsor-backed issuers were more likely to disclose at least one non-GAAP measure (96% of sponsor-backed IPOs disclosed a non-GAAP measure vs. 44% of non-sponsor-backed IPOs).

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Trend statistics presented in the executive summary are from our four year analysis dataset, which excludes FPIs and MLPs for comparability purposes.
Executive Summary

Ongoing trend of issuers disclosing a material weakness in internal controls
The trend that we identified in last year’s study of issuers disclosing a material weakness in internal controls has continued. In 2013, 17% of issuers disclosed a material weakness. In each of 2014, 2015 and 2016, approximately one-third of issuers disclosed a material weakness. Notably, our study indicated no material effect on pricing or aftermarket performance for these IPOs.

More almost-independent boards of controlled companies
Although the average percentage of board independence has remained relatively stable, between 60% and 65% over the last four years, we have seen an increase in the average percentage of board independence for controlled company boards. In 2013, the average percentage of board independence was 37% for controlled companies; this percentage was 47% in 2016.

Sponsor-backed deals with a secondary component remain consistent; secondary sales by management continue to decrease.
While sponsor-backed IPOs with a secondary component have remained stable over the last four years (32%, 34%, 30% and 39% in 2013, 2014, 2015 and 2016, respectively), the percentage of non-sponsor-backed deals with a secondary component has dropped dramatically from 21% in 2013 to 7% in 2016. There has also been a 71% decrease in the percentage of IPOs with a secondary component that included sales by an issuer’s management, from 52% in 2013 to 15% in 2016.

Insider purchasing continues to increase
We have seen a significant increase in insider purchasing in IPOs from 21% in 2013 to 45% in 2016. Insider purchases are most prevalent in the health care and TMT sectors and are being driven overall by the significant percentage of deals these two sectors have contributed over the last four years. We have identified a four-year trend showing that these deals have frequently priced below the range, but then demonstrated relatively strong aftermarket performance. In 2016, IPOs with insider purchasing, insiders purchased an average of 34% of the shares sold in the IPO. This is up from 21%, 27% and 21% in 2015, 2014 and 2013, respectively.

Multiple classes are trending towards better pricing and performance
In each year from 2013 to 2016 (except in 2014), we saw IPOs with multiple classes of common stock price above or in the range more frequently than IPOs without multiple classes of common stock. In each of those years, aftermarket performance was similar; however, 2016 marked the first time that for each measurement period, IPOs with multiple classes of common stock outperformed those without. For the same four-year period, IPOs in TMT and financial services comprised 57% of the IPOs with multiple classes of common stock, and IPOs in these two sectors generally outperformed the average of all other sectors.

We hope you enjoy the 2017 IPO Study and welcome your feedback. Please feel free to contact any of our lawyers listed inside the front cover.
2016 Overview
Methodology

Population

» Our proprietary database now includes 376 IPOs that priced from 2013 to 2016.

» The criteria for our study include:
  - Listing on a U.S. exchange and
  - Minimum initial base deal of $50 million in first public filing.

» The total population that met our criteria in 2016 was 79 IPOs.

» This study covers 67 IPOs (85% of the IPOs that met our criteria) that priced in 2016: 57 domestic issuers and 10 foreign private issuers (FPIs).

» Our trend analysis section covers 314 IPOs (excluding master limited partnerships (MLPs) and FPIs for consistency throughout the past four years): 56 in 2016, 74 in 2015, 86 in 2014 and 98 in 2013.

» Our study excludes: blank check companies (BCCs), special-purpose acquisition companies (SPACs), trusts, real estate investment trusts (REITs) and business development companies (BDCs).

» There is an appendix in our study for FPIs that priced in 2016.

» A case study for the Snap Inc. IPO is included after this overview.

Please keep in mind the smaller population of IPOs in 2016 when considering analyses of individual sectors.

Sources and Analysis

» Data compiled from publicly available: (i) registration statements on Form S-1 and Form F-1 and final prospectuses, (ii) SEC comment letters and (iii) as-filed underwriting agreements.

» Financial information is based on the issuer’s most recent audited fiscal year as disclosed in the final prospectus.

» Market, sector, financial sponsor and performance information is sourced from Dealogic.

» The term “average offer” means the average percentage change from the IPO price to the closing price on 1 day, 30 days, 90 days or 180 days (excludes deals priced after October 1, 2016) after the initial trade date and includes market data available as of March 31, 2017 (our cut-off date).

» References to “shares locked up” are presented as a percentage of shares owned prior to the IPO.

» Analysis of first round SEC comment letters and time to pricing excludes one issuer that received SEC comments on a prior IPO registration statement that withdrew prior to pricing.

» Analysis of corporate governance items excludes MLPs, FPIs and an issuer listed on the Bats BZX Exchange, given their unique corporate governance structures and available exemptions under stock exchange rules.

» All data was compiled, reviewed and analyzed by Proskauer capital markets attorneys and corporate finance analysts.
**Sector & Geographic Analysis**

### Sectors Represented

- The number of IPOs per sector is proportional to the industry composition for all IPOs in 2016 that met our criteria.

![Sectors Represented Pie Chart]

- **Health Care (22 IPOs)**
- **Technology, Media and Telecommunications - TMT (17 IPOs)**
- **Energy & Power - E&P (7 IPOs)**
- **Financial Services (8 IPOs)**
- **Industrials (6 IPOs)**
- **Consumer/Retail (7 IPOs)**

### Geographic Distribution

- We analyzed the geographic distribution of IPOs by surveying the location of issuers’ headquarters.
- Our study included issuers with headquarters in 21 states and nine foreign countries.
  - IPO issuers were incorporated across nine countries.
  - 49 of 57 (86%) IPOs with headquarters in the U.S. were incorporated in Delaware.
  - U.S. issuers were incorporated in four different states.

![Number of IPOs by Headquarters Bar Chart]

*Other includes AZ, CO, DE, FL, HI, KS, MN, NV, NJ, NC, OK, TN, VA, Bermuda (2) and China (Cayman Incorporated).

**FPIs include issuers with headquarters in China (3), and one each from Argentina, France, Germany, India, Japan, the Netherlands and Switzerland.*
Market Analysis

Deal Execution, Over-Allotment Option and Exchange Listing

» Out of 67 IPOs in our study, six (9%) priced in Q1, 24 (36%) priced in Q2, 20 (30%) priced in Q3 and 17 (25%) priced in Q4.

» The over-allotment option was partially or fully exercised in 56 of 67 (84%) of IPOs in our study.

Percentage of Over-Allotment Option Exercised by Sector

> More IPOs listed on NASDAQ than NYSE.

*In 2016, one issuer, Bats Global Markets Inc., listed on the Bats BZX Exchange.
Market Analysis

Deal Value*

» The average base deal value (priced amount) was $214.4 million, compared to $237.6 million in 2015 and $344.7 million in 2014 (excluding the Alibaba IPO).

» The median base deal value was $116.3 million in 2016, compared to $123.0 million in 2015 and $141.8 million in 2014.

» There were three IPOs with base deal value over $1 billion in 2016, compared to two in 2015 and nine in 2014.

» The largest base deal in 2016 in our study was LINE Corp, with deal value of $1.1 billion.**

Aftermarket Performance

» Overall, IPOs performed strongly in the aftermarket, with an average 1-day offer of 15%, an average 30-day offer of 21%, an average 30-day offer of 34% and an average 180-day offer of 39%.

*Deal value excludes exercise of the over-allotment option.
**Represents size of global deal.
***Data presented for one deal with pricing data available at 180 days.
****Only includes deals priced before October 1, 2016.
JOBS and FAST Acts: Overview

Emerging Growth Companies (EGCs)

» The Jumpstart Our Business Startups (JOBS) Act became effective April 5, 2012.
  ▪ The law created a new class of issuers called Emerging Growth Companies (EGCs), and provides flexibility for EGCs pursuing IPOs.

» EGCs are issuers with less than $1 billion of annual gross revenue during their most recent completed fiscal year.*

» An issuer that is an EGC at IPO will remain an EGC until the earliest of:
  ▪ The last day of the fiscal year five years after its IPO;
  ▪ The last day of the fiscal year in which it has gross revenues of $1 billion or more;*
  ▪ The date it has issued more than $1 billion in non-convertible debt during a three-year period; and
  ▪ The date it becomes a “large accelerated filer” (generally an issuer with a public float of at least $700 million that has been publicly reporting for at least one year).

» In December 2015, Congress passed the Fixing America’s Surface Transportation (FAST) Act, which modified the JOBS Act in certain respects:
  ▪ Public filing of the registration statement required only 15 days before road show launch (down from 21 days under the JOBS Act).
  ▪ Certain EGC benefits (e.g., two years of financial statements) locked in upon initial confidential submission through IPO.

Sector Analysis

» 52 of 67 (78%) IPO issuers were EGCs.

Percentage of EGCs by Sector

*On March 31, 2017, the SEC adopted amendments to increase the $1 billion annual gross revenue threshold to $1.07 billion. The amendments will become effective upon their publication in the Federal Register. The increase was due to a statutorily required inflation adjustment. Because the $1.07 billion threshold was not in effect during 2016, all issuers in our study qualified as an EGC under the $1 billion threshold.
**Financial Statements & Confidential Submission**

**Years of Financial Statements***

- 36 of 49 (73%) EGCs included two years of audited financial statements.
- 29 of 49 (59%) EGCs included two years of selected financial statements.

**Confidential Submission***

- All 52 EGCs elected to submit confidentially under the JOBS Act.
- Additionally, two FPIs that were not EGCs submitted confidentially.

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*The JOBS Act provides scaled financial disclosure requirements for EGCs, requiring only two years of audited financial statements and two years of selected financial statement data. Non-EGCs are required to include three years of audited financial statements and five years of selected financial statements. Non-EGCs are excluded as well as three EGCs that provided financial statements since inception (i.e., the period of time since inception of the company, which may be less than two years).

**Pursuant to FAST Act, issuers are permitted to omit audited financial statements in initial submissions for prior year(s) that would not be required in the prospectus at pricing.

***The JOBS Act permits an EGC to submit a registration statement for review by the SEC on a confidential basis.
**Time to IPO**

**Time to IPO***

- On average, EGCs that made a confidential submission publicly filed 151 days after their first confidential submission and priced 80 days after their first public filing.

*Excludes one prior SEC-reviewed issuer and two IPOs with confidential submission to pricing greater than 18 months.

**Includes two non-EGCs that confidentially submitted that were FPIs.

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**Average Number of Days From First Submission/Filing to Pricing**

- **EGCs electing to confidentially submit**
  - Average: 231 days
  - (49 IPOs)

- **Non-EGCs**
  - Average: 184 days
  - (15 IPOs)

- **All IPOs**
  - Average: 220 days
  - (64 IPOs)

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**Average Number of Days From First Submission/Filing to Pricing**

- **Overall**: 220 Days

*Excludes one prior SEC-reviewed issuer and two IPOs with confidential submission to pricing greater than 18 months.

**Includes two non-EGCs that confidentially submitted that were FPIs.
**Testing-the-Waters**

- Out of the 52 EGCs, 12 (23%) reported to the SEC that they engaged in testing-the-waters.
- Of the 12 EGCs, all were in health care and TMT.

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**Pricing vs. Range**

<table>
<thead>
<tr>
<th></th>
<th>EGCs that reported testing-the-waters</th>
<th>All EGCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below range</td>
<td>50%</td>
<td>37%</td>
</tr>
<tr>
<td>In range</td>
<td>25%</td>
<td>42%</td>
</tr>
<tr>
<td>Above range</td>
<td>25%</td>
<td>21%</td>
</tr>
</tbody>
</table>

*The JOBS Act permits EGCs to engage in testing-the-waters with institutional investors before or during the registration process to gauge investor interest in an IPO. Based on publicly available SEC comment and response letters.*
Accounting/Internal Controls

Overview

» Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers collectively audited 91% of the IPOs reviewed for this study.

» Other auditors included Grant Thornton and RSM.

Analysis

» Of the 67 IPOs:

- Eight (12%) had a going-concern qualification.
  - Six of these eight (75%) were health care issuers and two were TMT issuers (25%).
  - One of these eight (13%) was a pre-revenue issuer.

- 25 (37%) disclosed a material weakness in their internal control over financial reporting.
  - Two of these 25 (8%) were pre-revenue issuers.

- Two (3%) had restated financial statements.

![Pricing vs. Range](image)
Flash Results

Flash Results

» “Flash results” refer to estimated financial results for a recently completed fiscal period before complete financial statements are available. They are typically presented as ranges, and often only cover select financial line items or operating metrics. They are not required under accounting rules, but are often presented for disclosure reasons, particularly the closer the offering date is to the financial staleness date. *

» Overall, 16 of 67 (24%) IPOs showed flash results.

» 40 IPOs priced within 45 days after the end of the fourth fiscal quarter of 2015 and the first, second or third fiscal quarter of 2016.
  - 15 of these 40 (38%) showed flash results.
  - 25 of these 40 (63%) priced within 30 days of quarter end, and nine of these 25 (36%) showed flash results.
  - 15 of these 40 (38%) priced within 31-45 days of quarter end, and six of these 15 (40%) showed flash results.

Sector Analysis

» Flash results were more commonly presented in the financial services, industrials and consumer/retail sectors, and were the least common in E&P. Flash results in health care may be less meaningful due to the high percentage of pre-revenue issuers, though a few health care IPOs disclosed “flash cash” balance sheet line items.

*For IPOs, audited annual financial statements for the most recently completed fiscal year need to be included no later than 45 days after the end of the fiscal year and unaudited interim financial statements for the most recently completed fiscal quarter (other than the fourth quarter) need to be included no later than 134 days after the date of the most recent balance sheet included in the registration statement. For example, first quarter unaudited financial statements go stale at the end of the 134th day after the first quarter and an issuer would need to file second quarter unaudited financial statements with its registration statement on the 135th day.
Revenue

Five of 67 (7%) IPOs were by pre-revenue issuers.
- All five were biotech/biopharm issuers.
- Revenue generating issuers priced below the range more frequently than pre-revenue issuers, but outperformed pre-revenue issuers in the first 90 days after pricing.

## Pricing vs. Range

- **Revenue Generating Issuers**: 19% Below range, 32% In range, 32% Above range
- **Pre-revenue Issuers**: 49% Below range, 20% In range, 51% Above range
- **All Issuers**: 80% Below range, 20% In range, 31% Above range

## Aftermarket Performance

- **Average Offer: 1 Day**
  - Revenue Generating Issuers: 16%
  - Pre-revenue Issuers: 15%
  - All Issuers: 0%
- **Average Offer: 30 Days**
  - Revenue Generating Issuers: 22%
  - Pre-revenue Issuers: 0%
  - All Issuers: 0%
- **Average Offer: 90 Days**
  - Revenue Generating Issuers: 34%
  - Pre-revenue Issuers: 30%
  - All Issuers: 34%
- **Average Offer: 180 Days**
  - Revenue Generating Issuers: 38%
  - Pre-revenue Issuers: 39%
  - All Issuers: 55%

*Only includes deals priced before October 1, 2016.*
Net Income/Loss

38 of 67 (57%) issuers disclosed a net loss in their most recent audited fiscal year.
- 17 of these 38 (45%) were biotech/biopharm issuers and 13 of these 38 (34%) were in the TMT sector.

Pricing vs. Range

- Issuers with net income:
  - Below range: 24%
  - In range: 66%
  - Above range: 10%

- Issuers with a net loss:
  - Below range: 37%
  - In range: 39%
  - Above range: 18%

- All Issuers:
  - Below range: 31%
  - In range: 51%
  - Above range: 18%

Aftermarket Performance

- Issuers with a net loss:
  - Average Offer: 1 Day: 23%
  - Average Offer: 30 Days: 19%
  - Average Offer: 90 Days: 25%
  - Average Offer: 180 Days*: 28%

- Issuers with net income:
  - Average Offer: 1 Day: 13%
  - Average Offer: 30 Days: 16%
  - Average Offer: 90 Days: 21%
  - Average Offer: 180 Days*: 28%

- All issuers:
  - Average Offer: 1 Day: 15%
  - Average Offer: 30 Days: 21%
  - Average Offer: 90 Days: 25%
  - Average Offer: 180 Days*: 28%

*Only includes deals priced before October 1, 2016.
Adjusted EBITDA & Operating Metrics

**Adjusted EBITDA**

- In addition to financial measures calculated in accordance with Generally Accepted Accounting Principles (GAAP), many issuers disclose non-GAAP financial measures, such as Adjusted EBITDA.
  - 32 of 67 (48%) issuers disclosed Adjusted EBITDA.
    - 28 of these 32 (88%) issuers reported positive Adjusted EBITDA.
      - 10 of these 28 (36%) issuers also reported a GAAP net loss.

**Sector Analysis**

- The percentage of issuers that disclosed Adjusted EBITDA in the IPO prospectus varied across sectors.

**Percentage Disclosing Adjusted EBITDA by Sector**

**Operating Metrics**

- Operating metrics are non-financial performance measures and vary by sector. Common examples include page views in TMT, production data in E&P, portfolio statistics, credit quality ratios and capital ratios in financial services, new orders and lots sold in Industrials and units sold, backlog, store count and number of customers in Consumer/Retail.

**Disclosure of Operating Metrics by Sector**

*Includes EBITDAX.
**Based on review of summary financial information.
Pro Forma Financial Statements

» Under Regulation S-X, the SEC requires issuers that have made a significant business acquisition or for whom a significant business acquisition is probable to include standalone pro forma financial statements giving effect to the transaction.* Significance of a completed or probable acquisition is measured using the SEC’s investment, assets and income tests. Pro forma financial statements may also be required for a recent or proposed significant business disposition** and other events where disclosure would be material to investors (e.g., a recapitalization of the company).

» 12 of 67 (18%) IPOs included pro forma financial statements in the IPO prospectus.
  - The most common were in TMT (three of 12 (25%)) and E&P (three of 12 (25%)).

» Adjustments in pro forma financial statements gave effect to some or all of the following: acquisitions, dispositions, reorganizations, formation transactions, application of IPO proceeds and any related debt financings.

Percentage of IPOs Including Pro Forma Financial Statements by Sector

*See Article 11 of Regulation S-X. Pro forma financial statements giving effect to the transaction are not required if separate financial statements of the acquired or to be acquired business are not required to be included in the registration statement.

**Dispositions at a greater than 10% significance level and not fully reflected in the issuer’s financial statements.
**Total First Round SEC Comments**

- The lowest number of SEC comments received in a first round comment letter was two, the average was 26, the median was 25 and the highest was 55.

**First Round SEC Comments by Sector**

**Additional SEC Comments and Letters**

- The overall average for comments in the second comment letter was six.
- The overall average for comments in the third comment letter was four.
- The overall average number of comment letters was four.

*Excludes one prior SEC-reviewed issuer.
Financial & Accounting Comments*

Financial and accounting-related comments include those on the summary financial statements, selected financial statements, capitalization, management's discussion & analysis (MD&A), historical financial statements (F-pages) and pro forma financial statements.

- The average number of first round financial and accounting-related comments was 10, the median was eight, the lowest was zero and the highest was 34.

*Excludes one prior SEC-reviewed issuer.
SEC Comments: A Closer Examination

Cheap Stock*

» Cheap stock comments relate to the difference in valuation represented by (1) pre-IPO equity grants, typically in the form of options to purchase stock issued to officers or directors, and (2) the expected IPO price.

Revenue Recognition*

» Revenue recognition comments relate to the accounting policies that govern when an issuer records revenue from its operations.

Segment Reporting*

» Segment reporting comments relate to an issuer’s identification of its operating segments – public issuer accounting rules require the issuer to provide more detailed financial reporting for each segment.

*Excludes one prior SEC-reviewed issuer.

**Includes comments issued by the SEC prior to the inclusion of a price range in the prospectus. These comments are intended to highlight potential cheap stock issues early in the SEC review process.
SEC Comments: A Closer Examination

**Market Positioning Claim***

» Market positioning claim comments relate to requests that the issuer substantiate claims regarding its competitive position in its market or sector and/or purported market share for its products and services.

**Back-Up Support***

» Back-up support comments relate to requests that the issuer provide third-party or internal analysis, documentation or reasoning for superlative statements and/or market share or other similar data in the prospectus.

*Excludes one prior SEC-reviewed issuer.
SEC Comments: A Closer Examination

Non-GAAP Financial Measures*

» Non-GAAP financial measures comments relate to an issuer’s use and presentation of non-GAAP financial measures, the rationale for such measures and the appropriateness of adjustments taken.**

» 47 of 66 (71%) Issuers used at least one non-GAAP metric. Of these 47 issuers, 26 (55%) received at least one non-GAAP comment.

Percentage of IPOs that used Non-GAAP Financial Measures and Received a Related Comment***

Executive Compensation/Employment Arrangements*

» Executive compensation/employment agreements comments relate to the compensation paid to the issuer’s officers, directors or consultants, and related employment matters.

Percentage of IPOs with Executive Compensation/Employment Arrangements Comment

*Excludes one prior SEC-reviewed issuer.

**Common non-GAAP financial measures used by issuers included Adjusted EBITDA, adjusted net income and free cash flow.

***Based on 47 issuers that used non-GAAP measures in the registration statement.
Corporate Governance: Controlled Company Exemption

Overview*

» The listing standards of the NYSE and NASDAQ exempt controlled companies from certain corporate governance requirements, including the need to have a majority of independent directors on the board and fully independent nominating and compensation committees within one year of IPO pricing.

» A controlled company is a company in which more than 50% of the voting power for election of directors is held by an individual, a group or another company.

» 24 of 55 (44%) issuers in our corporate governance analysis were eligible for the controlled company exemption and 20 of these 24 (83%) eligible issuers elected to take advantage of the exemption.
  ▪ 18 of 24 (75%) controlled companies were sponsor-backed.
  ▪ 4 of 24 (17%) had multiple classes of common stock.
  ▪ 10 of 24 (42%) had a majority of independent directors on their boards at pricing, despite being exempt from this requirement.
  ▪ Average board independence for issuers eligible for the controlled company exemption and those issuers taking advantage of the exemption was 50% and 47%, respectively.

Eligibility & Election of Controlled Company Exemption

Controlled Companies by Sector

» A majority of health care, TMT and financial services issuers were not eligible for the controlled company exemption, while most E&P, industrials and consumer/retail issuers were eligible.

Eligibility & Election of Controlled Company Exemption by Sector

*Excludes MLPs, FPIs (no MLPs are FPIs) and an issuer listed on the Bats BZX Exchange. MLPs are excluded because they are generally exempt from NYSE and NASDAQ corporate governance requirements. FPIs are excluded because they are permitted to rely on home jurisdiction governance rules.
Corporate Governance: Key Items

**Director Independence**

» The average number of directors on the board at pricing was eight and the average number of independent directors was five.

» 40 of 55 (73%) issuers had a majority of independent directors on the board at pricing.

  - Of the 40 issuers with a majority of independent directors, the average board independence was 75%.

» Of the 15 issuers that did not have a majority of independent directors:

  - 14 of 15 (93%) were eligible for, and elected to take, the controlled company exemption.
  - One of 14 (7%) elected to use the transition period under applicable stock exchange rules.

**Separation of Chairman and CEO Roles**

» 32 of 53 (60%) of issuers separated their Chairman and CEO roles at pricing.

**Pricing vs. Range**

- Majority of independent directors: Below range - 17%, In range - 45%, Above range - 38%
- Not majority of independent directors: Below range - 7%, In range - 80%, Above range - 13%
- All IPOs: Below range - 18%, In range - 51%, Above range - 31%

*Excludes MLPs (given their unique governance structures), FPIs (subject to home jurisdiction governance rules) and an issuer listed on the Bats BZX Exchange.
**The NYSE and NASDAQ require that a majority of the issuer’s board be independent within one year of pricing.
***There were two issuers that did not disclose.
Corporate Governance: Classes of Common Stock

**Classes of Common Stock***

» Nine of 55 (16%) issuers went public with multiple classes of common stock. A majority of these issuers provided for different voting rights among the multiple classes.

» The nine issuers with multiple classes of common stock consisted of one in health care, four in TMT, one in consumer/retail, two in financial services and one in industrials.

» Four of these nine (44%) were eligible for the controlled company exemption.

### Pricing vs. Range

<table>
<thead>
<tr>
<th></th>
<th>Below range</th>
<th>In range</th>
<th>Above range</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPOs with multiple classes of common stock</td>
<td>22%</td>
<td>45%</td>
<td>33%</td>
</tr>
<tr>
<td>IPOs with a single class of common stock</td>
<td>33%</td>
<td>56%</td>
<td>11%</td>
</tr>
<tr>
<td>All IPOs</td>
<td>31%</td>
<td>51%</td>
<td>18%</td>
</tr>
</tbody>
</table>

### Aftermarket Performance

| Average Offer: 1 Day | IPOs with multiple classes of common stock | 33% | 11% | 15% |
| Average Offer: 30 Days | IPOs with a single class of common stock | 41% | 17% | 21% |
| Average Offer: 90 Days | All IPOs | 66% | 33% | 34% |
| Average Offer: 180 Days** | IPOs with multiple classes of common stock | 42% | 39% | 39% |
|                     | IPOs with a single class of common stock | 39% | 39% | 39% |

*Excludes MLPs (given their unique governance structures), FPIs (subject to home jurisdiction governance rules) and an issuer listed on the Bats BZX Exchange.

**Only includes deals priced before October 1, 2016.

Overview

» In connection with their IPO, issuers often adopt some or all of the following takeover defenses in their governing documents:

- **Classified board:** Typically one-third of the directors are up for election each year for a three-year term, as opposed to annual elections for all directors.

- **Blank check preferred stock:** Allows the board of directors to issue preferred stock, without stockholder approval, that may have special voting, conversion or control rights.
  
  - All issuers in our study had authorized blank check preferred stock.

- **Restrictions on stockholder action by written consent:** Limits the ability of stockholders to act other than at a meeting.

- **Supermajority voting:** More than a simple majority of the voting power of the issuer’s outstanding stock is required to take certain corporate actions, which could include amendments to the issuer’s governing documents.

- **Limitations on stockholders’ ability to call special meetings:** Limits the ability of stockholders to act other than at a meeting called by the board, the CEO, the Chairman or any other person authorized by the issuer’s governing documents.

- **Stockholder rights plan or poison pill:** Allows an issuer’s existing stockholders, upon a hostile bidder’s acquisition of a specified percentage of shares, to purchase additional shares at a deeply discounted price in order to deter a potential hostile takeover bid.
  
  - No issuers in our study had a poison pill at the time of the IPO.

» Certain takeover defenses are **subject to triggers**, meaning that the provisions do not take effect until the stock ownership level of a significant stockholder or group of stockholders goes below a certain percentage.

» Many issuers have also adopted **exclusive forum provisions**, which limit the courts in the certain types of internal-affairs stockholder litigation that can be brought.

» The above-mentioned defenses are most common in companies incorporated in Delaware. Many non-U.S. jurisdictions do not allow certain of these; for example, a percentage of stockholders may be permitted by law to call a special meeting in certain countries.
Anti-Takeover: Classified Board

**Classified Board***

» 41 of 50 (82%) issuers had a classified board.

Percentage with Classified Board

- Yes: 2%
- Subject to trigger: 16%
- No: 82%

» Issuers with a classified board more frequently priced below the range, but outperformed in the aftermarket compared to issuers that did not have a classified board.

**Pricing vs. Range**

<table>
<thead>
<tr>
<th></th>
<th>Below range</th>
<th>In range</th>
<th>Above range</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPOs with classified board</td>
<td>17%</td>
<td>51%</td>
<td>32%</td>
</tr>
<tr>
<td>IPOs without classified board</td>
<td>12%</td>
<td>63%</td>
<td>25%</td>
</tr>
<tr>
<td>All IPOs</td>
<td>18%</td>
<td>51%</td>
<td>31%</td>
</tr>
</tbody>
</table>

**Aftermarket Performance**

<table>
<thead>
<tr>
<th></th>
<th>Issuers with classified board</th>
<th>Issuers without classified board</th>
<th>All IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Offer: 1 Day</td>
<td>17%</td>
<td>6%</td>
<td>15%</td>
</tr>
<tr>
<td>Average Offer: 30 Days</td>
<td>25%</td>
<td>4%</td>
<td>21%</td>
</tr>
<tr>
<td>Average Offer: 90 Days</td>
<td>45%</td>
<td>17%</td>
<td>34%</td>
</tr>
<tr>
<td>Average Offer: 180 Days**</td>
<td>43%</td>
<td>30%</td>
<td>39%</td>
</tr>
</tbody>
</table>

*Excludes MLPs (given their unique governance structures), FPIs (subject to home jurisdiction governance rules), non-U.S. incorporated issuers (where anti-takeover defenses work differently) and an issuer listed on the Bats BZX Exchange.

**Only includes deals priced before October 1, 2016.
Anti-Takeover Measures and Exclusive Forum Provisions*

- A majority of issuers adopted restrictions on stockholders’ ability to act by written consent and to call a special meeting.
- Most issuers included supermajority voting requirements in their organizational documents limiting the ability of shareholders to take certain corporate actions.
- 45 of 50 (90%) issuers had exclusive forum provisions, compared to 85% in 2015 and 79% in 2014.
  - All issuers elected the jurisdiction of organization as the exclusive forum.

*Excludes MLPs (given their unique governance structures), FPIs (subject to home jurisdiction governance rules), non-U.S. incorporated issuers (where anti-takeover defenses work differently) and an issuer listed on the Bats BZX Exchange.
IPO Fees and Expenses

» Underwriting fees and total IPO expenses (excluding underwriting fees) are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$2,450,000</td>
<td>$11,874,691</td>
<td>$7,823,528</td>
<td>$54,000,000</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$1,459,870</td>
<td>$4,725,204</td>
<td>$3,900,000</td>
<td>$23,926,976</td>
</tr>
</tbody>
</table>

» The most significant components of IPO expenses (excluding underwriting fees) are typically legal and accounting fees and printing costs.

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal***</td>
<td>$412,000</td>
<td>$2,278,459</td>
<td>$1,950,000</td>
<td>$8,326,616</td>
</tr>
<tr>
<td>Accounting***</td>
<td>$250,000</td>
<td>$1,290,083</td>
<td>$1,000,000</td>
<td>$8,394,290</td>
</tr>
<tr>
<td>Printing</td>
<td>$65,000</td>
<td>$473,020</td>
<td>$350,000</td>
<td>$1,600,000</td>
</tr>
</tbody>
</table>

Average IPO Expenses as a Percentage of Base Deal

*Underwriting fees are the percentage of the IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.
**Total IPO expenses excludes the underwriting fees.
***Excludes two IPOs with insufficient information.
## IPO Fees and Expenses: EGCs vs. Non-EGCs

### EGCs

Underwriting fees and total IPO expenses (excluding underwriting fees) for EGC IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$2,450,000</td>
<td>$8,298,916</td>
<td>$6,903,750</td>
<td>$34,833,333</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$2,082,586</td>
<td>$3,985,036</td>
<td>$3,583,857</td>
<td>$9,825,000</td>
</tr>
</tbody>
</table>

### Non-EGCs

Underwriting fees and total IPO expenses (excluding underwriting fees) for non-EGC IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$9,732,603</td>
<td>$24,270,713</td>
<td>$18,898,333</td>
<td>$54,000,000</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$1,459,870</td>
<td>$7,291,119</td>
<td>$6,500,000</td>
<td>$23,926,976</td>
</tr>
</tbody>
</table>

### Average IPO Expenses as a Percentage of Base Deal

- **Underwriting fees***: 6.66% (EGCs), 5.34% (Non-EGCs)
- **Legal**: 2.09% (EGCs), 1.08% (Non-EGCs)
- **Accounting**: 0.86% (EGCs), 0.59% (Non-EGCs)
- **Printing**: 0.44% (EGCs), 0.17% (Non-EGCs)
- **Total IPO expenses****: 4.03% (EGCs), 1.62% (Non-EGCs)

---

*Underwriting fees are the percentage of the IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.

**Total IPO expenses excludes the underwriting fees.

***Excludes IPOs with insufficient information (one in legal and two in accounting).

****Excludes one IPO with insufficient information.
Deal Structure: Secondary Component & Management Sales

**Secondary Component**

» 16 of 67 (24%) IPOs had one or more selling stockholders in the base deal.

**Management Sales**

» Management participated as selling stockholders in the base offerings in four of 16 (25%) IPOs with a secondary component.

---

*Only includes deals priced before October 1, 2016.*
Directed Share Programs (DSPs)

- Directed share programs (DSPs) allow insiders, employees and other individuals that have relationships with the issuer to purchase stock in the IPO. At the request of the issuer, the underwriters reserve a certain amount of the shares in the IPO for purchase by DSP participants.
- 28 of 67 (42%) IPOs included DSPs.
- The average disclosed DSP size for all IPOs was 5%, the lowest was 1% and the highest was 12.5%.

**Percentage of IPOs with a DSP by Sector**

- Health Care: 41%
- TMT: 24%
- E&P: 43%
- Financial Services: 63%
- Industrials: 50%
- Consumer/Retail: 57%

- Overall = 42%

- Of the 28 DSPs, 92% were administered by a bank in the underwriting syndicate, 4% were administered by a third-party firm not in the syndicate and 4% did not disclose the administrator of the DSP.

**Firm Running DSP**

- Bank in the Underwriting Syndicate: 92%
- Third-party Firm: 4%
- Not Disclosed: 3%
Deal Structure: Insiders Purchasing in IPO

Insiders Purchasing in IPO*

» 28 of 67 (42%) issuers disclosed insiders purchasing in the IPO.
  ▪ 18 of 28 (64%) issuers were in health care and seven of 28 (25%) issuers were in TMT.
  ▪ In these 28 IPOs, insiders purchased an average of 34% of the shares sold in the IPO. This is up from 21%, 27% and 21% in 2015, 2014 and 2013, respectively.

» IPOs with insiders purchasing priced below the range more often than IPOs without insiders purchasing.

Pricing vs. Range

![Chart showing pricing vs. range for IPOs with and without insiders purchasing.]

Aftermarket Performance

![Chart showing aftermarket performance for IPOs with and without insiders purchasing.]

» IPOs with insider purchases initially slightly outperformed in the aftermarket as compared to those without, but performed similarly in the longer term.

*Does not include purchases through a DSP.
**Only includes deals priced before October 1, 2016.
Use of Proceeds*

- Seven of 61 (11%) issuers paid a special dividend in connection with or in close proximity to the IPO.
  - Two were paid with IPO proceeds.
  - Four were paid within six months prior to IPO.
- Six of 61 (10%) issuers entered into a bridge loan within six months prior to the IPO.

Private Placement

- 19 of 67 (28%) issuers privately placed equity security offerings within the twelve months prior to the first submission/filing of the IPO registration statement.
  - 17 of these 19 (89%) issuers privately placed equity securities within the six months prior to the first submission/filing of the IPO registration statement.

Shares Reserved Under Equity Incentive Plans

- The average shares reserved under issuer equity incentive plans at the time of IPO as a percentage of outstanding shares following the IPO was 11%.

*Excludes all-secondary IPOs.
Lock-Ups

Overview

» The underwriters in an IPO generally require the issuer, as well as directors, officers and pre-IPO stockholders, to agree not to sell shares of the issuer for a period of time – typically 180 days – following pricing. The lock-up agreement typically contains limited exceptions.
  - 66 of 67 (99%) IPOs had 180-day lock-ups.
  - The IPO surveyed that did not have a 180-day lock-up instead had a staggered lock-up with certain shares eligible for sale at 180 days, 360 and 540 days following pricing.
  - The Snap IPO in Q1 of 2017 has a number of unique features for its lock-up structure. For example, insiders in the Snap IPO were locked up for less than 180 days (150 or 120 depending on timing of earnings release) and approximately one-quarter of shares purchased in the IPO are locked up for one year.

» Most issuers either disclosed a percentage that locked up close to 100% (average 99.4%*) or stated that “substantially all” pre-IPO shares are locked up.

*This 99.4% average is based on a total of 33 IPOs that disclosed the percentage or number of shares locked up and excludes one outlier. Some issuers (32 of 67) do not specify quantity, but disclose that “substantially all” pre-IPO shares are locked up. Lock up information for two issuers provided indeterminable information.

**Typically, lock-up release rights are negotiated amongst the bookrunners and the issuer. The parties that control release rights may, prior to the expiration of the lock-up period, permit the issuer and/or certain stockholders to sell their shares in an organized follow-on offering or freely into the open market.
Lock-Ups: Carve-Out for Issuances in Connection with Acquisitions or Joint Ventures

Acquisition/JV Carve-Outs

» 40 of 67 (60%) IPOs included a carve-out in the issuer’s lock-up agreement for stock issuances in connection with acquisitions/joint ventures (JVs) and commercial collaborations.

» All but one of the 40 had a cap on the number of shares that could be issued (reflected as a percentage of shares outstanding pre-IPO).

» A majority of IPOs included a 5% cap on this carve-out.

Sector Analysis

» Issuer lock-up carve-outs for stock issuances in connection with acquisitions/JVs and commercial collaborations were most prevalent in health care, industrials and TMT IPOs.

Percentage of IPOs with Lock-Up Carve-Out For Acquisitions/JVs by Sector

Overall = 60%
Sponsor-Backed IPOs

Overview

» 29 of 67 (43%) IPOs were sponsor-backed.*
  ▪ 17 of these 29 (59%) were EGCs as compared to 92% for all other IPOs.
» Sponsor-backed IPOs were balanced across all sectors, but a majority of industrials and consumer/retail IPOs were sponsor-backed.

Performance

» Sponsor-backed IPOs priced in or above the range more frequently than non-sponsor-backed IPOs and initially outperformed in the aftermarket relative to non-sponsor-backed.

Pricing vs. Range

Aftermarket Performance

*As defined by Dealogic.
**Only includes deals priced before October 1, 2016.
Sponsor-Backed IPOs: Length of Investment & Management/Termination Fees

**Length of Sponsor Investment**

- The average length of sponsor investment prior to the IPO was 4.8 years.

**Average Years of Sponsor Investment**

- Overall = 4.6 years

**Management/Termination Fees**

- Management/termination fees are fees paid in connection with an IPO to an issuer’s equity sponsor(s), typically pursuant to cancellation of a pre-IPO management services agreement.
  - Four of 29 (14%) sponsor-backed issuers paid management/termination fees to the sponsor group in connection with the IPO.

**Management/Termination Fee as a Percentage of Base Deal by Sector**

- Overall = 3.89%

*Excludes seven IPOs that did not disclose sponsor buy-in date.
## Sponsor-Backed IPOs: Key Comparisons

**Key Comparisons**

<table>
<thead>
<tr>
<th>Category</th>
<th>Sponsor-Backed</th>
<th>Non-Sponsor-Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of total IPOs</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>Percentage of IPOs that are EGCs</td>
<td>59%</td>
<td>92%</td>
</tr>
<tr>
<td>Average market capitalization at pricing</td>
<td>$1.5bn</td>
<td>$935mm</td>
</tr>
<tr>
<td>Average number of directors*</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Percentage of issuers with majority-independent boards*</td>
<td>56%</td>
<td>89%</td>
</tr>
<tr>
<td>Percentage of IPOs eligible for the controlled company exemption*</td>
<td>67%</td>
<td>21%</td>
</tr>
<tr>
<td>Average number of total first round SEC comments**</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>Average number of SEC comment letters**</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Average number of days from first submission/filing to pricing**</td>
<td>234</td>
<td>209</td>
</tr>
<tr>
<td>(excludes an IPO with submission to pricing over 18 months)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average total IPO expenses (excluding underwriting fees)</td>
<td>$5.1mm</td>
<td>$4.5mm</td>
</tr>
<tr>
<td>Median total IPO expenses (excluding underwriting fees)</td>
<td>$5.0mm</td>
<td>$3.6mm</td>
</tr>
<tr>
<td>Percentage of IPOs with a secondary component</td>
<td>38%</td>
<td>13%</td>
</tr>
<tr>
<td>Percentage of IPOs disclosing Adjusted EBITDA</td>
<td>76%</td>
<td>26%</td>
</tr>
<tr>
<td>Percentage of IPOs with DSPs</td>
<td>45%</td>
<td>39%</td>
</tr>
<tr>
<td>Percentage of IPOs with insiders purchasing</td>
<td>17%</td>
<td>61%</td>
</tr>
</tbody>
</table>

*Excludes MLPs (given their unique governance structures), FPIs (subject to home jurisdiction governance rules) and an issuer listed on the Bats BZX Exchange.

**Excludes one prior SEC-reviewed issuer.
Case Study: Snap
A Snapshot of the Snap Inc. IPO

Snap is a Big Deal

➤ Priced: March 1, 2017
➤ Listed on NYSE (44% of all IPOs and 48% of TMT IPOs in our database listed on NYSE from 2013-2016). In 2000, more than 95% of TMT IPOs listed on NASDAQ.¹
➤ According to Snap’s prospectus, it is the first U.S.-based company to issue non-voting stock that is listed on a U.S. stock exchange in an IPO.
➤ Snap opened with a market capitalization of $33 billion.
➤ Headquartered in California and incorporated in Delaware.

Snap Took Advantage of Exemptions for EGCs

➤ Snap had 2016 revenues of $404 million and qualified as an EGC under the JOBS Act. 87% of TMT issuers and 81% of all issuers in our study from 2013-2016 were EGCs.
  ▪ Since 2013, five of 19 IPOs with a base deal of $1 billion+ qualified as EGCs and seven of these 19 IPOs were in the TMT sector.
➤ Snap initially filed confidentially; total time of 121 days from confidential submission to pricing is shorter than the average of 231 days for EGCs.
➤ Snap disclosed that it would take advantage of the following exemptions available to EGCs:
  ▪ No independent auditor attestation report on internal controls;

¹ Source: Dealogic: SEC registered IPOs with initial deal value greater than $50mm+ and excludes BDCs, BCCs/SPACs and REITs.
- Reduced executive compensation disclosure obligations and
- No advisory votes on executive compensation and any golden parachute payments.

Financial Statements and Internal Controls

- Snap followed the increasing trend of including only two years of audited financial statements in its prospectus, as permitted by the JOBS Act.
- Snap included non-GAAP metrics of Adjusted EBITDA and Free Cash Flow (both negative) and disclosed a GAAP net loss for both 2015 and 2016.
- Snap disclosed having a material weakness in its internal controls in 2014.

Snap is a Controlled Company with an Independent Board

- Snap separates the Chairman and CEO roles and has an independent Chairman.
- Despite qualifying as a controlled company, Snap has a majority independent board.
  - Snap has nine directors on the board, seven of whom met NYSE independence standards.
  - Each committee of the board is fully composed of independent directors.
  - Unlike a significant majority of controlled-company IPO issuers in 2016, Snap does not have a classified board.
The shares that were issued in the IPO have no voting rights

Snap has multiple classes of common stock, consistent with 16% of IPOs in our 2017 study.
- Class C shares are held by co-founders and have 10 votes per share. Based on outstanding amounts, founders have total control of the company.
- Class B shares are held by pre-IPO investors and employees. Holders of Class B shares have 1 vote per share.
- Class A shares were offered to new investors in the IPO. Holders of Class A shares have no voting rights.

Snap notes that because the Class A shares are non-voting, holders will receive less information in the future.
- Significant stockholders of the company, other than founders, officers and directors, will not be required to file Section 16 ownership reports and will not be subject to short-swing profit rules.
- While not generally required to file proxy statements or information statements, Snap indicated that it intends to provide information that would otherwise be available in these documents to Class A stockholders through Exchange Act reports.
- Snap has also indicated that, although not required, it would invite Class A stockholders to all meetings of other stockholders and permit them to ask questions of management in the same manner as other stockholders.
- The co-founders will maintain Class C shares and related rights even if they are no longer employed by Snap.
- Class C shares held by each co-founder convert to Class B shares only upon the death of such founder or if such co-founder’s holdings of Class C shares falls below 30% of shares held at time of IPO. If either of the co-founders’ Class C shares are converted to Class B shares, the other co-founder will be able to exercise voting control over the company.

SEC Comment Letter Analysis

Snap received 41 comments in its first SEC comment letter and 17 comments in its second comment letter, both of which were higher than the averages overall (26 and six, respectively) and the averages for TMT issuers (30 and eight, respectively) in our 2017 study. Furthermore, Snap received five total comment letters, higher than the average of four. The higher number of comments and letters may be due to greater scrutiny by the SEC given the high profile of the IPO and the company’s unique capital structure.

Similar to other TMT issuers, Snap received comments on its non-GAAP disclosure and its revenue recognition policy. Of all TMT issuers, 44% and 76%, respectively, received comments in these two areas. However, unlike other TMT issuers, Snap did
not receive any market positioning claim or back-up support comments. Of all TMT issuers, 41% and 77%, respectively, received comments in these two areas, each of which was the highest of any sector.

- Several SEC comments focused on Snap’s use of operating metrics, particularly daily active users, and the rights (including lack of voting rights) associated with its Class A shares.
- Snap added disclosure on the securities law implications of having no voting rights for its Class A shares (e.g., no Schedule 13D/G or Section 16 filings by large shareholders, no proxy or information statement filings and no shareholder proposals under Rule 14a-8) following SEC comments on the issue.
- Snap stated that it did not engage in testing-the-waters, which is not unexpected given the anticipation for, and high profile of, its IPO.

### Other Notes

- **Lock-up arrangements**
  - Insiders have a lock-up period of 150 days, which could end up being as short as 120 days depending on the timing of Snap’s earnings release, compared to most IPOs with 180 days (66 of 67 IPOs in 2016).
  - Approximately one-quarter of the shares offered in the IPO are subject to a one-year lock-up controlled by the company.
- Included a Directed Share Program (DSP) for up to 7% of the offering.
- Snap’s IPO included selling stockholders with 73% of the base deal consisting of primary shares and 28% of the base deal consisting of shares from the selling stockholders. Management sold in the IPO, with 16% of the base deal being sold by the two co-founders, representing 58% of selling stockholder shares.
Trend Analysis
Overview

Population

» In our trend analysis, we examined 314 IPOs: 56 IPOs that priced in 2016, 74 IPOs that priced in 2015, 86 IPOs that priced in 2014 and 98 IPOs that priced in 2013.

» This trend analysis uses the same methodology as our overall study, except that for comparability purposes we excluded 10 FPIs and one MLP (that is not also an FPI) in 2016, 12 FPIs and four MLPs (that are not also FPIs) in 2015 and 19 FPIs and 14 MLPs (that are not also FPIs) in 2014 because we did not review FPIs and MLPs in 2013. However, there is an FPI trend analysis at the end of the FPI appendix.

» For sector trend analysis, we do not present E&P IPOs as a separate sector because of the small population after excluding MLPs and FPIs.

*Deal value excludes exercise of the over-allotment option.*
Sector Analysis

Sector Trends

Sectors by Deal Count*

2013
- Health Care (31 IPOs)
- TMT (29 IPOs)
- E&P (3 IPOs)
- Financial Services (11 IPOs)
- Industrials (10 IPOs)
- Consumer/Retail (14 IPOs)

2014
- Health Care (33 IPOs)
- TMT (18 IPOs)
- E&P (3 IPOs)
- Financial Services (12 IPOs)
- Industrials (10 IPOs)
- Consumer/Retail (10 IPOs)

2015
- Health Care (29 IPOs)
- TMT (16 IPOs)
- E&P (3 IPOs)
- Financial Services (7 IPOs)
- Industrials (8 IPOs)
- Consumer/Retail (11 IPOs)

2016
- Health Care (20 IPOs)
- TMT (12 IPOs)
- E&P (5 IPOs)
- Financial Services (6 IPOs)
- Industrials (6 IPOs)
- Consumer/Retail (7 IPOs)

*Excludes MLPs and FPIs.
JOBs Act

EGC Sector Analysis
» All sectors except TMT experienced a decrease in the percentage of IPOs by EGCs. The industrials sector experienced a significant decrease in 2016.

Financial Statements
» Continued increase in the percentage of EGCs that included two years of audited financial statements as compared to three years of audited financial statements.

*Excludes two EGCs in 2015 and three in 2016 that provided financial statements since inception (i.e., the period of time since inception of the company, which may be less than two years).
Financial Information

» Decrease in pre-revenue issuers in 2016.
» Decrease after three years of a relatively consistent percentage of net loss issuers.
» A lower percentage of issuers disclosed net loss and positive EBITDA and/or Adjusted EBITDA, but five of seven (71%) of these issuers priced in or above the range.

Pricing vs. Range

Pre-Revenue Issuers

Net Loss Issuers

Issuers with a Net Loss and Positive EBITDA and/or Adjusted EBITDA

Below range  In range  Above range
Accounting/Internal Controls

» Since 2014, about a third of the issuers disclosed a material weakness in internal control.

» There were fewer issuers as a percentage of the IPO market with restated financial statements in 2015 and 2016 as compared to both 2013 and 2014.

Pricing vs. Range

*Only two issuers in 2016.
Total First Round SEC Comments*

» There continues to be a decrease in both the average and median number of first round comments received by issuers from the SEC.

Number of First Round SEC Comments

- **Low**: 16, 14, 9, 2
- **Average**: 42, 37, 29, 25, 38, 34, 27, 24
- **Median**: 89, 89, 78
- **High**: 520, 475, 292, 214, 213, 212, 211, 210

40% decrease from '13

Percentage of IPOs with Certain Comments

- % with cheap stock: 52%, 43%, 51%, 51%
- % with revenue recognition: 55%, 44%, 47%, 32%
- % with segment reporting: 24%, 18%, 22%, 24%

Timing**

» There was an increase in 2016 in the average and median time to pricing from first submission / filing.

Number of Days From First Submission/Filing to Pricing

*Excludes prior SEC-reviewed issuers and issuers for which SEC comment letters were not yet publicly available (two in 2013, zero in 2014, one in 2015, and zero in 2016).

**Excludes prior SEC-reviewed issuers and also an additional four IPOs in 2013, one in 2015 and one in 2016 with time from first submission/filing to pricing of greater than 18 months.
Director Independence*

» Board composition remains consistent.

**Number of Directors**

<table>
<thead>
<tr>
<th>Year</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>5.0</td>
<td>7.8</td>
<td>13.0</td>
</tr>
<tr>
<td>2014</td>
<td>5.0</td>
<td>7.6</td>
<td>13.0</td>
</tr>
<tr>
<td>2015</td>
<td>4.0</td>
<td>7.3</td>
<td>13.0</td>
</tr>
<tr>
<td>2016</td>
<td>5.0</td>
<td>7.5</td>
<td>13.0</td>
</tr>
</tbody>
</table>

**Number of Independent Directors**

<table>
<thead>
<tr>
<th>Year</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.0</td>
<td>4.8</td>
<td>11.0</td>
</tr>
<tr>
<td>2014</td>
<td>1.0</td>
<td>4.7</td>
<td>11.0</td>
</tr>
<tr>
<td>2015</td>
<td>1.0</td>
<td>4.4</td>
<td>11.0</td>
</tr>
<tr>
<td>2016</td>
<td>1.0</td>
<td>4.9</td>
<td>11.0</td>
</tr>
</tbody>
</table>

**Percentage of Board Independence**

<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average % of board independence</td>
<td>61%</td>
<td>63%</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td>% of issuers with a majority of independent directors</td>
<td>68%</td>
<td>69%</td>
<td>68%</td>
<td>73%</td>
</tr>
<tr>
<td>Average % of board independence for majority independent boards</td>
<td>76%</td>
<td>77%</td>
<td>73%</td>
<td>75%</td>
</tr>
<tr>
<td>Average % of board independence for non-majority independent boards</td>
<td>29%</td>
<td>29%</td>
<td>34%</td>
<td>38%</td>
</tr>
</tbody>
</table>

*For 2016, an issuer listed on the Bats BZX Exchange is excluded.
Corporate Governance: Anti-Takeover Measures and Key Items

**Anti-Takeover Measures***

- Anti-takeover measures for IPOs have remained relatively consistent.
- There has been an increase in the percentage of IPOs including an exclusive forum provision in their organizational documents.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>% with classified board</td>
<td>84%</td>
<td>80%</td>
<td>84%</td>
<td>84%</td>
</tr>
<tr>
<td>% with blank check</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>98%</td>
</tr>
<tr>
<td>% with supermajority</td>
<td>90%</td>
<td>95%</td>
<td>96%</td>
<td>N/A**</td>
</tr>
<tr>
<td>% with jurisdiction</td>
<td>90%</td>
<td>85%</td>
<td>89%</td>
<td>96%</td>
</tr>
</tbody>
</table>

*Excludes non-U.S. incorporated issuers and an issuer listed on the Bats BZX Exchange in 2016.

**Includes anti-takeover measures subject to trigger.

***Data was not captured in 2013.

****For 2016, an issuer listed on the Bats BZX Exchange is excluded.

*****Excludes one IPO in 2014 and two IPOs in 2016 with insufficient information.

**Other Key Corporate Governance Items****

- Decrease in percentage of issuers with multiple classes of common stock in 2016.
- Decrease in percentage of issuers that are eligible for controlled company exemption taking advantage of it.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of issuers separating</td>
<td>59%</td>
<td>64%</td>
<td>66%</td>
<td>60%</td>
</tr>
<tr>
<td>% of issuers with multiple classes of common stock</td>
<td>18%</td>
<td>15%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>% of issuers eligible for controlled company exemption</td>
<td>38%</td>
<td>35%</td>
<td>42%</td>
<td>44%</td>
</tr>
<tr>
<td>% of eligible issuers that elected controlled company exemption</td>
<td>92%</td>
<td>87%</td>
<td>87%</td>
<td>83%</td>
</tr>
</tbody>
</table>

*Excludes non-U.S. incorporated issuers and an issuer listed on the Bats BZX Exchange in 2016.

**Includes anti-takeover measures subject to trigger.

***Data was not captured in 2013.

****For 2016, an issuer listed on the Bats BZX Exchange is excluded.

*****Excludes one IPO in 2014 and two IPOs in 2016 with insufficient information.
IPO Fees and Expenses

IPO Fees and Expenses*

From 2013 to 2016, average total IPO expenses, excluding underwriting fees, have increased in absolute dollars and as a percentage of the base deal.

- Expenses may be increasing as a percentage of base deal because average deal size has been decreasing and deals have been taking longer from submission/initial filing to pricing over the last two years.

Average IPO Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Average legal fees**</th>
<th>Average accounting fees**</th>
<th>Average printing costs</th>
<th>Average total IPO expenses*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$1.9</td>
<td>$1.2</td>
<td>$0.4</td>
<td>$4.1</td>
</tr>
<tr>
<td>2014</td>
<td>$2.0</td>
<td>$1.3</td>
<td>$0.4</td>
<td>$4.4</td>
</tr>
<tr>
<td>2015</td>
<td>$2.0</td>
<td>$1.1</td>
<td>$0.4</td>
<td>$4.2</td>
</tr>
<tr>
<td>2016</td>
<td>$2.2</td>
<td>$1.2</td>
<td>$0.5</td>
<td>$4.5</td>
</tr>
</tbody>
</table>

Median ($mm) | $1.5 $1.5 $1.6 $1.8 | $0.9 $1.0 $0.9 $1.0 | $0.4 $0.3 $0.3 $0.4 | $3.4 $3.3 $3.5 $3.8 |

Expenses as % of base deal

<table>
<thead>
<tr>
<th>Sector</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>1.3%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.8%</td>
</tr>
<tr>
<td>TMT</td>
<td>0.8%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Industrials</td>
<td>2.7%</td>
<td>2.9%</td>
<td>3.0%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

IPO Expenses by Sector*

Average Total IPO Expenses by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>3.3</td>
<td>3.1</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td>TMT</td>
<td>4.0</td>
<td>5.0</td>
<td>4.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Financial Services</td>
<td>3.6</td>
<td>4.5</td>
<td>5.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Industrials</td>
<td>4.1</td>
<td>5.0</td>
<td>5.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Consumer/Retail</td>
<td>5.9</td>
<td>4.8</td>
<td>4.3</td>
<td>5.5</td>
</tr>
</tbody>
</table>

*Excludes underwriting fees.
**Excludes one IPO in 2014 and two in 2016 with insufficient information.
IPO Fees and Expenses: EGCs vs. Non-EGCs

EGCs vs. Non-EGCs*

» IPO expenses for EGCs continue to be lower than for non-EGCs.

» In general, 2016 saw an increase in the difference between EGCs and Non-EGCs for expenses as a percentage of base deal.

Average EGC Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Average legal fees**</th>
<th>Average accounting fees***</th>
<th>Average printing costs</th>
<th>Average total IPO expenses*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$1.7</td>
<td>$1.6</td>
<td>$1.9</td>
<td>$1.9</td>
</tr>
<tr>
<td>2014</td>
<td>$1.1</td>
<td>$1.1</td>
<td>$1.0</td>
<td>$1.0</td>
</tr>
<tr>
<td>2015</td>
<td>$0.3</td>
<td>$0.3</td>
<td>$0.4</td>
<td>$0.4</td>
</tr>
<tr>
<td>2016</td>
<td>$3.6</td>
<td>$3.6</td>
<td>$4.0</td>
<td>$4.0</td>
</tr>
</tbody>
</table>

Average Non-EGC Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Average legal fees****</th>
<th>Average accounting fees****</th>
<th>Average printing costs</th>
<th>Average total IPO expenses*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$2.7</td>
<td>$3.3</td>
<td>$3.1</td>
<td>$3.1</td>
</tr>
<tr>
<td>2014</td>
<td>$1.7</td>
<td>$1.8</td>
<td>$1.4</td>
<td>$2.1</td>
</tr>
<tr>
<td>2015</td>
<td>$0.7</td>
<td>$0.6</td>
<td>$0.5</td>
<td>$0.6</td>
</tr>
<tr>
<td>2016</td>
<td>$5.9</td>
<td>$5.9</td>
<td>$6.4</td>
<td>$6.4</td>
</tr>
</tbody>
</table>

Median ($mm)

- EGCs: $1.5, $1.4, $1.5, $1.7
- Non-EGCs: $2.6, $2.9, $3.0, $2.8

Expenses as % of base deal

- EGCs: 1.5%, 1.6%, 1.5%, 2.0%
- Non-EGCs: 0.6%, 0.8%, 0.7%, 0.9%

---

*Excludes underwriting fees.
**Excludes one IPO in 2016 with insufficient information.
***Excludes two IPOs in 2016 with insufficient information.
****Excludes one IPO in 2014 and one IPO in 2016 (legal fees only) with insufficient information.
Deal Structure & DSPs

Deal Structure

» Since 2013 there has been a significant decrease in the percentage of secondary IPOs in which management has sold shares.

» Since 2013 there has been a significant increase in the percentage of IPOs with insiders purchasing.

Directed Share Programs (DSPs)

Percentage of IPOs with DSP by Sector

*IPOs with a secondary component only in the over-allotment option are counted as without a secondary component (six in 2013, four in 2014, two in 2015 and zero in 2016).

**Excludes two IPOs in 2014 with insufficient information.

***Does not include purchases through a DSP.
Lock-Ups & Carve-Outs

**Lock-Ups**

» A significant percentage of IPOs have been disclosing that “substantially all” shares have been locked up, as opposed to providing an exact number of shares or percentage.

**Issuer Carve-out for Acquisitions/JVs**

» Except in TMT, 2016 saw a decrease in issuer carve-out for stock issuances in connection with acquisitions/JVs and commercial collaborations.

**Percentage of IPOs with Issuer Lock-Up Carve-out for Acquisitions/JVs by Sector**

*Excludes three IPOs in 2014, one in 2015 and two IPOs in 2016 with indeterminable information.*
Sponsor-Backed IPOs

There was an uptick in sponsor-backed IPOs as a percentage of the overall market in 2016 from 2015, although still lower than the percentage in 2013.

- % of sponsor-backed IPOs: 57%, 51%, 45%, 50% (2013, 2014, 2015, 2016)
- % of sponsor-backed IPOs with management/termination fee: 30%, 36%, 27%, 14% (2013, 2014, 2015, 2016)

There was an increase in the percentage of sponsor-backed IPOs with a secondary component as compared to prior years, even as the percentage of non-sponsor-backed IPOs with a secondary component hit a four year low.

- % of sponsor-backed IPOs with a secondary component*: 32%, 34%, 30%, 39% (2013, 2014, 2015, 2016)
- % of non-sponsor-backed IPOs with a secondary component*: 21%, 17%, 10%, 7% (2013, 2014, 2015, 2016)

*IPOs with a secondary component only in the over-allotment option are not counted as having a secondary component (2015: two in sponsor-backed; zero in non-sponsor-backed).
## Sponsor-Backed IPOs (Four Year Analysis)

### Key Comparisons

<table>
<thead>
<tr>
<th></th>
<th>Sponsor-Backed 2013-2016</th>
<th>Non-Sponsor-Backed 2013-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of IPOs</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>Average market capitalization at pricing</td>
<td>$1.68bn</td>
<td>$1.07bn</td>
</tr>
<tr>
<td>Average number of directors*</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Average number of independent directors*</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Percentage of IPOs with majority independent boards*</td>
<td>56%</td>
<td>83%</td>
</tr>
<tr>
<td>Average number of total first round SEC comments**</td>
<td>37</td>
<td>33</td>
</tr>
<tr>
<td>Average number of days from first submission/filing to pricing date***</td>
<td>162</td>
<td>142</td>
</tr>
<tr>
<td>Average total IPO expenses (excluding underwriting fees)</td>
<td>$4.71mm</td>
<td>$3.81mm</td>
</tr>
</tbody>
</table>

*Excludes an issuer listed on the Bats BZX Exchange.
**Excludes prior SEC-reviewed issuers and issuers for which SEC comment letters were not yet publicly available (zero in 2013, one in 2014, zero in 2015, and one in 2016).
***Excludes prior SEC-reviewed issuers and also excludes an additional six IPOs in 2013, two in 2014, one in 2015, and one in 2016 with time from first submission/filing to pricing of greater than 18 months.
Proskauer IPO Database
2016: 22 IPOs (33% of 2016)
2015: 33 IPOs (37% of 2015)
2014: 37 IPOs (31% of 2014)
2013: 31 IPOs (31% of 2013)
Total: 123 Health Care IPOs

Health care was the leading sector by deal count for the fourth year in a row. Of health care IPOs priced in 2016, 19 (86%) were by biotech or biopharm companies, two (9%) were by medical devices or diagnostics companies and one (5%) was by a hospital / clinic. Since 2013, our study has examined a total of 123 health care IPOs.

High Insider Participation – More than 80% of health care issuers disclosed insiders purchasing in the IPO, compared to 22% for all other IPOs. On average, purchases by these insiders comprised 39% of the gross proceeds of health care IPOs, compared to 25% of the gross proceeds across all other sectors. This insider purchasing activity has increased from already high numbers last year when we identified that 64% of health care issuers disclosed insider purchasing in the IPO, comprising an average of 26% of gross proceeds. Unlike last year, however, health care issuers with insiders purchasing did not perform as well in the aftermarket as IPOs without insiders purchasing overall.

Significant Capital Raising Activity Prior to IPO – Nine of 22 health care issuers (41%) issued equity securities in private placements in the twelve months leading up to their IPOs. 89% of these issuers did so in the six months leading up to their IPOs. Because many biotech/biopharm issuers are pre-revenue, they are often engaged in more frequent capital raising activities compared to issuers in other sectors.

Fewer SEC Comments, but Longer Time to Pricing – Health care IPOs received fewer SEC comments, on average, than other sectors. In addition, health care IPOs received fewer SEC comments in 2016 as compared to 2015. 86% of issuers in 2016 received a cheap stock comment, up from 73% of issuers in 2015.

Health care IPOs received fewer comments than other sectors on other topics like revenue recognition and segment reporting. Despite a decrease in SEC comments, as was the case with many sectors, the time from initial submission or filing almost doubled year over year. This year the average number of days from initial submission or filing to pricing was 213 days, as compared to 129 days in 2015.

Taking Full Advantage of EGC Status – In 2016, 95% of health care issuers were EGCs, as compared to 69% of issuers for all other 2016 IPOs and 100% of all health care IPOs in 2015. Health care issuers, more than any sector, took advantage of certain JOBS Act exemptions.

- Limited Financial Information – 88% of the health care EGC IPOs in our study included two years of audited financial statements compared to 65% for all other EGCs in our overall study, and 88% included two years of selected financial statements, compared to 42% for all other EGCs in our study. Biotech/biopharm issuers were even more likely to disclose only two years of financial statements, with 93% including two years of audited financial statements and 93% including two years of selected financial statements. In addition, three issuers in this sector completed IPOs with less than two years of financial statements given a limited operating history.

- Testing-the-Waters – Eight of 21 health care EGC issuers (38%) reported to the SEC that they engaged in testing-the-waters communications, compared to 13% for all other EGC issuers. Of these eight health care issuers, seven were biotech/biopharm issuers. Since many biotech/biopharm issuers are pre-revenue, these issuers often benefit from feedback from potential investors prior to marketing their transactions.

High Percentage of Director Independence – 90% of health care issuers had a majority of independent directors on their boards compared to 63% for all other IPOs. This may be related to the low percentage of controlled companies in the health care sector as compared to other sectors. Health care issuers with majority independent boards, on average, had 77% of their board composed of independent directors.
Health Care Market Analysis

Overview

» We analyzed 22 health care IPOs in 2016:
  - 19 (86%) biotech/biopharm.
  - 2 (9%) medical devices/diagnostics.
  - 1 (5%) hospitals/clinics.

» Two of 22 (9%) were FPIs, with headquarters in the Netherlands and Switzerland.

» The U.S. health care issuers were headquartered in nine states, with the highest number in Massachusetts (seven of 18 (39%)), California (three of 18 (17%)) and Texas (two of 18 (11%)).

Deal Execution

» No health care IPOs priced above the range, compared to 27% for all other IPOs.

Deal Value & Over-Allotment*

» Virtually all health care IPOs had deal values below $250 million.

» The over-allotment option was partially or fully exercised in 17 of 22 (77%) health care IPOs, compared to 87% for all other IPOs.

*Deal value excludes exercise of the over-allotment option.
Confidential Submission & Testing-the-Waters

Overview

» 21 of 22 (95%) health care IPOs were EGCs, compared to 69% for all other IPOs.

Confidential Submission

» All health care EGCs elected confidential submission, the same as all other EGCs.

Testing-the-Waters*

» Eight of 21 (38%) health care EGCs reported that they conducted testing-the-waters, compared to 13% for all other EGCs.
   • Seven of these eight (88%) were biotech/biopharm.

*Based on publicly available SEC and response letters.
Financial Statements

**Years of Financial Statements: Health Care EGCs***

- 88% of health care EGCs included two years of audited financial statements (compared to 65% for all other EGCs) and 88% included two years of selected financial statements (compared to 42% for all other EGCs).

**Years of Financial Statements: Biotech/Biopharm EGCs***

- 93% of biotech/biopharm EGCs included two years of audited financial statements and two years of selected financial statements.

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*Excludes three IPOs that included less than two years of audited financial statements due to short operating histories. These issuers provided financial statements since inception.
Accounting/Internal Controls & Flash Results

**Accounting/Internal Controls: All Health Care IPOs**

- Of the 22 health care IPOs:
  - Six (27%) had a going-concern qualification.
  - Seven (32%) disclosed a material weakness in internal control over financial reporting.
  - None had restated financial statements.
  - 13 of 22 (59%) health care IPOs had at least one of the issues above (going-concern or material weakness).

**Pricing vs. Range**

<table>
<thead>
<tr>
<th>Description</th>
<th>Below range</th>
<th>In range</th>
<th>Above range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care IPOs with a going-concern qualification</td>
<td>50%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Health Care IPOs with material weakness in internal controls</td>
<td>29%</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>All Health Care IPOs</td>
<td>41%</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>All Other IPOs</td>
<td>27%</td>
<td>46%</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Accounting/Internal Controls: Biotech/Biopharm IPOs**

- Of the 19 biotech/biopharm IPOs:
  - Five (26%) had a going-concern qualification.
  - Seven (37%) disclosed a material weakness in internal control over financial reporting.
  - Twelve (63%) had at least one of the issues above (going-concern or material weakness).

**Flash Results**

- 14 of 22 (64%) health care IPOs priced within 45 days of the end of the fourth quarter of 2015 and the first, second or third quarter of 2016.
  - Three of these 14 (21%) health care IPOs showed flash results. Flash results may be less meaningful for health care IPOs due to a high percentage of pre-revenue issuers.
Revenue, Net Income/Loss & Adjusted EBITDA

Revenue

» Five of 22 (23%) health care issuers were pre-revenue.
  - All five of these were biotech/biopharm issuers.
  - These five represent all of the pre-revenue issuers in our study.

Net Income/Loss

» 18 of 22 (82%) health care issuers had a net loss, compared to 44% for all other issuers.

» 17 of 19 (89%) biotech/biopharm issuers had a net loss.

Adjusted EBITDA

» Three of 22 (14%) health care issuers disclosed Adjusted EBITDA, compared to 64% for all other issuers.
Total First Round SEC Comments*

» On average, the total number of first round SEC comments for health care IPOs was lower than for all other IPOs.

» 19 of 22 (86%) had cheap stock comments, compared to 29% for all other IPOs.

» Segment reporting and revenue recognition were less common for health care IPOs than for all other IPOs.

*Excludes a prior SEC-reviewed issuer.
Timing

The time period from first submission/filing to pricing for health care IPOs was shorter than the average for all other IPOs.

**Average Number of Days From First Submission/Filing to Pricing**

- Health Care IPOs: 213 days
- BT/BP IPOs: 213 days
- All Other IPOs: 224 days

**Health Care Average Number of Days From First Submission/Filing to Pricing**

- 2016: 213 days
- 2015: 129 days
- 2014: 115 days

*Excludes a prior SEC-reviewed issuer and IPOs with confidential submission to pricing greater than 18 months (one in health care, one for all others).
Corporate Governance: Key Items

**Controlled Company Exemption**
» Four of 20 (20%) health care issuers were eligible for the controlled company exemption, compared to 57% for all other issuers.
  - All four elected to take advantage of the exemption.

**Director Independence**
» 18 of 20 (90%) health care issuers had a majority of independent directors on their boards, compared to 63% for all other issuers.
  - On average, these 18 had 77% board independence.

**Composition of Board**

<table>
<thead>
<tr>
<th>Average # of directors</th>
<th>Health Care IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average # of independent directors</th>
<th>Health Care IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Separation of Chairman & CEO Roles**
» 11 of 18 (61%) health care issuers separated their Chairman and CEO roles, compared to 60% for all other issuers.

**Classes of Common Stock**
» One of 20 (5%) health care issuers had multiple classes of common stock, compared to 23% for all other issuers.

*Excludes FPIs (subject to home jurisdiction governance rules) (two in health care, eight for all other IPOs).
**Excludes FPIs and an additional two with insufficient information.
IPO Fees and Expenses

Underwriting fees and total IPO expenses (excluding underwriting fees) for health care IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$2,450,000</td>
<td>$7,216,360</td>
<td>$4,917,500</td>
<td>$33,364,918</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$2,100,000</td>
<td>$3,608,432</td>
<td>$3,050,000</td>
<td>$9,271,875</td>
</tr>
</tbody>
</table>

Legal fees, accounting fees and printing costs for health care IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal***</td>
<td>$1,100,000</td>
<td>$2,017,312</td>
<td>$1,692,500</td>
<td>$6,700,000</td>
</tr>
<tr>
<td>Accounting***</td>
<td>$250,000</td>
<td>$937,917</td>
<td>$825,000</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>Printing***</td>
<td>$65,000</td>
<td>$321,818</td>
<td>$275,000</td>
<td>$800,000</td>
</tr>
</tbody>
</table>

*Underwriting fees are the portion of IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.
**Total IPO expenses excludes underwriting fees.
***Excludes two IPOs with insufficient information for all other IPOs.
Deal Structure: Secondary Component, Management Sales & DSPs

**Secondary Component**
- One of 22 (5%) health care IPOs had a secondary component, compared to 33% for all other IPOs.

**Directed Share Programs (DSPs)**
- Nine of 22 (41%) health care IPOs included DSPs, compared to 42% for all other IPOs.
Deal Structure: Insiders Purchasing

**Insiders Purchasing in IPO***

» 18 of 22 (82%) health care issuers disclosed insiders purchasing in the IPO, compared to 22% for all other IPOs.

» 16 of 19 (84%) biotech/biopharm issuers disclosed insiders purchasing in the IPO.

» In these 18 IPOs, insiders represented an average of 39% of the shares sold in the IPO, compared to an average of 25% for all other IPOs.

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*Does not include purchases through a DSP.

**Only includes deals priced before October 1, 2016.
Lock-Ups & Carve-Outs

Lock-Ups

» Seven of 22 (32%) health care IPOs disclosed the percentage or number of shares locked up and of these IPOs, on average, 98.1% of pre-IPO shares were locked up, compared to 99.7% for all other IPOs.

» 15 of 22 (68%) health care IPOs disclosed that “substantially all” pre-IPO shares were locked up.

» 13 of 22 (59%) health care IPOs required all bookrunners to release the locked-up shares, four of 22 (18%) required a subset of bookrunners and five of 22 (23%) required only the lead left bookrunner.

Carve-Outs

» 18 of 22 (82%) health care IPOs included a carve-out in the issuer lock-up for stock issuances in connection with acquisitions/joint ventures (JVs) and commercial collaborations, compared to 49% for all other IPOs.

» Of the 18 health care IPOs with acquisition/JV carve-outs, all included a cap, reflected as a percentage of shares outstanding, on the number of shares that could be issued.
Sponsor-Backed IPOs

Sponsor-Backed and Management/Termination Fees

» Four of 22 (18%) health care IPOs were sponsor-backed, compared to 56% for all other IPOs.
  • None of these four issuers paid management or termination fees to the sponsor group in connection with the IPO, compared to 16% for all other IPOs.

» The average length of sponsor investment was 4.7 years, the lowest was 1.2 years and the highest was 9.2 years.

Key Comparisons

<table>
<thead>
<tr>
<th>Percentage of health care IPOs</th>
<th>Sponsor-Backed</th>
<th>Non-Sponsor-Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average market capitalization at pricing</td>
<td>$1.32bn</td>
<td>$319mm</td>
</tr>
<tr>
<td>Average number of directors*</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Average number of independent directors*</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Average number of total first round SEC comments**</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Average number of days from first submission/filing to pricing date**</td>
<td>247</td>
<td>204</td>
</tr>
<tr>
<td>Average total IPO expenses (excluding underwriting fees)</td>
<td>$6.1mm</td>
<td>$3.1mm</td>
</tr>
</tbody>
</table>

*Excludes FPIs (subject to home jurisdiction governance rules).
**Excludes one prior SEC-reviewed issuer.
Promskauer IPO Database
2016: 17 IPOs (26% of 2016)
2015: 20 IPOs (22% of 2015)
2014: 25 IPOs (21% of 2014)
2013: 29 IPOs (29% of 2013)
Total: 91 TMT IPOs

Smaller Deals – Deal size skewed lower in the TMT sector in 2016. In 2016, 12% of TMT IPOs had a base deal size of $250 million or greater, compared to 40% of TMT IPOs in 2015. The average base deal size for TMT IPOs was $196.8 million in 2016, compared to $349.2 million in 2015, $384.5 million (excluding Alibaba) in 2014 and $236.2 million in 2013. This is perhaps related to greater ability of TMT issuers to raise private funding and secondary markets for pre-IPO shares that let TMT issuers defer IPOs in less than ideal markets.

Slightly Improved Pricing – In each of the last three years, TMT IPOs have had a greater percentage of deals pricing above the range (47%, 45% and 44% of TMT IPOs in 2016, 2015 and 2014, respectively, compared to about 24% for all other IPOs from 2014 to 2015 and 8% in 2016).

And a Better Year of Performance – TMT had the strongest aftermarket performance of any sector in our study at each of 1 day, 30 days and 90 days after pricing. Some of the year’s best performing IPOs were in the TMT sector.

...Despite Net Losses and Internal Control Weaknesses – The strong pricing and performance of TMT IPOs occurred despite a higher rate of disclosure regarding potential financial and internal control weaknesses. 76% of TMT issuers reported a net loss as compared to 57% for all other issuers. In addition, TMT issuers with a net loss were more likely to price above the range than the overall market and also performed strongly in the aftermarket. More than half of TMT issuers disclosed a material weakness in internal control over financial reporting without any discernible impact on pricing or aftermarket performance.

Continued SEC Comments’ Emphasis on Revenue Recognition – TMT issuers continue to be far more likely to receive a revenue recognition comment than issuers in any other sector: 76% of TMT issuers received comments in this area, compared to 22% for all other sectors. 13 of 17 TMT issuers were in the software or services subsectors, which have historically been characterized by less-straightforward revenue collection arrangements. Commonly addressed areas included:

• timing of revenue recognition (e.g., over the term of a contract or estimated customer life),
• collection of revenues through third-party intermediaries (e.g., channel partners, direct or indirect advertisers), and
• multiple-element arrangements (e.g., hardware sold together with software licenses and other services).

TMT issuers were also more likely to receive a market positioning or backup support comment than issuers in other sectors.

TMT FPIs Continue Strong Showing – In 2016, FPIs constituted almost a third of TMT IPOs. Some of the more prominent consumer-facing technology issuers that completed IPOs in 2016 weren’t based in Silicon Valley, but overseas. The Japan-headquartered Line Corp. (which was formerly part of a Korean internet search company) was the year’s most notable TMT IPO. Also notable was the December 2016 IPO of Trivago GmbH, a Dutch hotel search platform that was a spin-off from Expedia, Inc.

Multiple Classes – In 2016 and 2015, TMT issuers had a higher instance of multiple classes of common stock compared to each of 2014 and 2013. In 2015 and 2016, 46% of TMT issuers had multiple classes of common stock, compared to 14% for all other issuers. This is a reversal from 2013 and 2014 when 13% of TMT issuers had multiple classes of common stock, compared to 18% for all other issuers.
TMT Market Analysis

Overview

» We analyzed 17 technology, media & telecommunications (TMT) IPOs in 2016.
  ▪ 12 (71%) software companies.
  ▪ Four (24%) semiconductor companies.
  ▪ One (6%) services company.

» Five of 17 (29%) were FPIs, with headquarters in China, Germany and Japan.

» The U.S. TMT issuers were headquartered in four states, with the most in California (seven of 12 (58%)).

Deal Execution

» Eight of 17 (47%) TMT IPOs priced above the range, compared to 8% for all other IPOs.

Deal Value & Over-Allotment*

Nine of 17 (53%) TMT IPOs had a deal value between $100 million and $250 million.

» The over-allotment option was partially or fully exercised in 15 of 17 (88%) TMT IPOs, compared to 82% for all other IPOs.

*Deal value excludes exercise of the over-allotment option.
Confidential Submission, Testing-the-Waters & Financial Statements

Overview

» 16 of 17 (94%) TMT IPOs were EGCs, compared to 72% for all other IPOs.

Confidential Submission

» All 16 TMT EGCs elected confidential submission, the same as all other EGCs.

Testing-the-Waters*

» Four of 16 (25%) TMT EGCs reported that they conducted testing-the-waters, compared to 22% for all other EGCs.

Years of Financial Statements

» 69% of TMT EGCs included two years of audited financial statements (compared to 76% for all other EGCs) and 62% included at least three years of selected financial statements (compared to 30% for all other EGCs).

*Based on publicly available SEC comment and response letters.
Accounting/Internal Controls & Flash Results

Accounting/Internal Controls

» Of the 17 TMT IPOs:
  - Two (12%) had a going-concern qualification.
  - Nine (53%) disclosed a material weakness in internal control over financial reporting.
  - One (6%) had restated financial statements.

Pricing vs. Range

Flash Results

» Nine of 17 (53%) TMT IPOs priced within 45 days of the end of the fourth quarter of 2015 and the first, second or third quarter of 2016.
  - Four of these nine (44%) showed flash results.

*Based on two IPOs with a going-concern qualification.
**Based on one IPO with restated financial statements.
Net Income/Loss & Adjusted EBITDA

Net Income/Loss

» 13 of 17 (76%) TMT issuers had a net loss, compared to 57% for all other issuers.

Pricing vs. Range

Average Offer: 1 Day
- TMT issuers with a net loss: 40%
- All other issuers with a net loss: 37%
- TMT issuers with a net income: 43%
- All other issuers with a net income: 46%

Average Offer: 30 Days
- TMT issuers with a net loss: 15%
- All other issuers with a net loss: 42%
- TMT issuers with a net income: 14%
- All other issuers with a net income: 13%

Average Offer: 90 Days
- TMT issuers with a net loss: 23%
- All other issuers with a net loss: 23%
- TMT issuers with a net income: 25%
- All other issuers with a net income: 25%

Average Offer: 180 Days*
- TMT issuers with a net loss: 12%
- All other issuers with a net loss: 24%
- TMT issuers with a net income: 64%
- All other issuers with a net income: 62%

*Only includes deals priced before October 1, 2016.

Adjusted EBITDA

» Nine of 17 (53%) TMT issuers disclosed Adjusted EBITDA, compared to 46% for all other issuers.
SEC Comments

Total First Round SEC Comments*

» On average, the total number of first round SEC comments for TMT IPOs was higher than for all other IPOs.

Number of Total First Round SEC Comments

- **Low**: TMT IPOs = 9, All Other IPOs = 2
- **Average**: TMT IPOs = 30, All Other IPOs = 25
- **Median**: TMT IPOs = 28, All Other IPOs = 24
- **High**: TMT IPOs = 46, All Other IPOs = 55

Percentage with Cheap Stock Comment

- TMT IPOs: 35%
- All Other IPOs: 51%

Percentage with Revenue Recognition Comment

- TMT IPOs: 29%
- All Other IPOs: 22%

Percentage with Segment Reporting Comment

- TMT IPOs: 29%
- All Other IPOs: 22%

*Excludes a prior SEC-reviewed issuer.
Timing

**Timing**

» The time period from first submission/filing to pricing for TMT IPOs was longer to price than the average for all other IPOs.

---

**Average Number of Days From First Submission/Filing to Pricing**

- **TMT IPOs**: 249 days
- **All Other IPOs**: 210 days

*Excludes a prior SEC-reviewed issuer and IPOs with confidential submission to pricing greater than 18 months (none in TMT, two for all other IPOs).*

---

**TMT Average Number of Days From First Submission/Filing to Pricing**

- **2016**: 249 days
- **2015**: 160 days
- **2014**: 138 days

*Excludes a prior SEC-reviewed issuer and IPOs with confidential submission to pricing greater than 18 months (none in TMT, two for all other IPOs).*
Corporate Governance: Key Items

**Controlled Company Exemption***
» Five of 12 (42%) TMT issuers were eligible for the controlled company exemption, compared to 44% for all other issuers.
  - Three of these five (60%) elected to take advantage of the exemption.

**Director Independence***
» 10 of 12 (83%) TMT issuers had a majority of independent directors on their boards, compared to 70% for all other issuers.
  - On average, these 10 had 81% board independence.

![Composition of Board](chart)

**Separation of Chairman & CEO Roles***
» Six of 12 (50%) TMT issuers separated their Chairman and CEO roles, compared to 63% for all other issuers.

![Separation of Chairman & CEO Roles](chart)

**Classes of Common Stock***
» Four of 12 (33%) TMT issuers had multiple classes of common stock, compared to 12% for all other issuers.

*Excludes FPIs (subject to home jurisdiction governance rules) (five in TMT, five for all other IPOs).
IPO Fees and Expenses

Underwriting fees and total IPO expenses (excluding underwriting fees) for TMT IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$3,703,000</td>
<td>$10,448,831</td>
<td>$7,840,000</td>
<td>$31,857,630</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$2,526,534</td>
<td>$5,787,131</td>
<td>$4,900,000</td>
<td>$23,926,976</td>
</tr>
</tbody>
</table>

Legal fees, accounting fees and printing costs for TMT IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal</td>
<td>$1,184,000</td>
<td>$2,577,448</td>
<td>$2,000,000</td>
<td>$8,326,616</td>
</tr>
<tr>
<td>Accounting</td>
<td>$417,000</td>
<td>$1,674,930</td>
<td>$1,100,000</td>
<td>$8,394,290</td>
</tr>
<tr>
<td>Printing</td>
<td>$150,000</td>
<td>$485,003</td>
<td>$300,000</td>
<td>$1,600,000</td>
</tr>
</tbody>
</table>

Average IPO Expenses as a Percentage of IPO Base Deal

Average IPO Expenses

*Underwriting fees are the portion of IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.

**Total IPO expenses excludes underwriting fees.

***Excludes two IPOs with insufficient information for all other IPOs.
Deal Structure: Secondary Component, DSPs & Insiders Purchasing

**Secondary Component**
- One of 17 (6%) TMT IPOs had a secondary component, compared to 30% for all other IPOs and compared to 15% of TMT IPOs in 2015, 48% in 2014 and 33% in 2013.

**Directed Share Programs (DSPs)**
- Four of 17 (24%) TMT IPOs included DSPs, compared to 48% for all other IPOs.

**Insiders Purchasing**
- Seven of 17 (41%) TMT issuers disclosed insiders purchasing in the IPO, compared to 42% for all other IPOs.
- In these seven IPOs, insiders comprised an average of 18% of the shares sold in the IPO, compared to an average of 38% purchased for all other IPOs.

*Does not include purchases through a DSP.*
Lock-Ups & Carve-Outs

**Lock-Ups**

- Seven of 17 (41%) TMT IPOs disclosed the percentage or number of shares lock up and of these IPOs, on average, 100% of pre-IPO shares were locked up, compared to 99.2% for all other IPOs.
- 10 of 17 (59%) TMT IPOs disclosed that “substantially all” pre-IPO shares were locked up.
- Four of 17 (24%) TMT IPOs required all bookrunners to release the lock-up, seven of 17 (41%) required a subset of bookrunners and six of 17 (35%) required only the lead left bookrunner.

**Carve-Outs**

- 11 of 17 (65%) TMT IPOs included a carve-out in the issuer lock-up for stock issuances in connection with acquisitions/joint ventures (JVs) and commercial collaborations, compared to 58% for all other IPOs.

**Percentage of IPOs with Carve-Out for Acquisitions/JVs**

- Of the 11 TMT IPOs with acquisition/JV carve-outs, all included a cap on the number of shares that could be issued (reflected as a percentage of shares outstanding).
Sponsor-Backed IPOs

Sponsor-Backed and Management/Termination Fees

» Seven of 17 (41%) TMT IPOs were sponsor-backed, compared to 44% for all other IPOs.
  ▪ None of these issuers paid management or termination fees to the sponsor group in connection with
    the IPO, compared to 18% for all other IPOs.
» The average length of sponsor investment for TMT IPOs was 3.9 years, the lowest was 2.5 years and the
  highest was 5.7 years.

Key Comparisons

<table>
<thead>
<tr>
<th></th>
<th>Sponsor-Backed</th>
<th>Non-Sponsor-Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of TMT IPOs</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>Average market capitalization at pricing</td>
<td>$1.1bn</td>
<td>$1.7bn</td>
</tr>
<tr>
<td>Average number of directors*</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Average number of independent directors*</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Average number of total first round SEC comments</td>
<td>25</td>
<td>33</td>
</tr>
<tr>
<td>Average number of days from first submission/filing to pricing date</td>
<td>291</td>
<td>220</td>
</tr>
<tr>
<td>Average total IPO expenses (excluding underwriting fees)</td>
<td>$4.6mm</td>
<td>$6.6mm</td>
</tr>
</tbody>
</table>

*Excludes FPIs (subject to home jurisdiction governance rules).
Energy & Power (E&P)
**E&P Executive Summary**

**Proskauer IPO Database**
2016: Seven IPOs (10% of 2016)  
2015: Seven IPOs (8% of 2015)  
2014: 16 IPOs (13% of 2014)  
2013: Three IPOs (3% of 2013)  
**Total: 33 E&P IPOs**

The E&P sector IPOs analyzed in this year’s study included two oil & gas exploration and development companies, two oil & gas field equipment and services companies, two utility and energy companies and a pipeline MLP. Oil prices also rebounded in 2016. WTI Crude started the year around $30/barrel and ended the year above $50/barrel.

**Tilt towards larger deals** – More than half of E&P IPOs had a base deal above $250 million with almost half in the $250 million to $500 million range. In addition, the average base deal for E&P issuers at pricing was $283 million, which ranks third among the other sectors in our study. Notwithstanding base deal size, almost all of the E&P issuers were EGCs.

**Greatest use of pro formas** – For the second year in a row, E&P issuers included pro forma financial statements more than any other sector. Generally, the primary driver of these pro forma financial statements was the contribution or acquisition of oil and gas properties or other significant assets to and by the issuer. Other adjustments that were given effect in the pro forma financial statements included reorganizations, the issuance and sale of equity or debt securities and other financings.

**Two years of Financial Statements and Selected Financial Statements** – All of the E&P issuers that were EGCs in our study this year included two years of audited financial statements and two years of selected financial statements. This compares to 70% for all other EGCs that included two years of audited financial statements and 53% for all other EGCs that included two years of selected financial statements.

Against the backdrop of larger deals this may seem counterintuitive. One explanation may be that some of these issuers are generally relatively new entities formed for the purpose of holding assets as public entities.

**Significant use of Non-GAAP Measures** – Most E&P issuers utilized Adjusted EBITDA or EBITDAX compared to less than half of other issuers in our overall study.

**Unpredictable Pricing and Performance** – While E&P IPOs were slightly more likely to price above the range than IPOs in other sectors, they were also more likely to price below the range. In addition, E&P issuers had the lowest percentage of over-allotment option exercise and also had relatively weak aftermarket performance compared to other sectors.

**Low Insider Purchasing** – One of seven (13%) E&P issuers disclosed insiders purchasing, compared to 45% for all other issuers.

**Return to Sponsor-backed IPOs** – After no sponsor-backed IPOs in 2015, 57% of E&P IPOs in 2016 were sponsor-backed.
Energy & Power Market Analysis

Overview

» We analyzed seven energy & power (E&P) IPOs in 2016.
  - Two (29%) oil & gas exploration and development companies.
  - Two (29%) oil & gas field equipment and services companies.
  - Two (29%) utility and energy companies.
  - One (13%) MLP.

» One of seven (13%) was an FPI, with its headquarters in India.

» The U.S. E&P issuers were headquartered in five states: Texas (2), Colorado, Delaware, Florida and Oklahoma.

Deal Execution

» Two of seven (29%) E&P IPOs priced above the range, compared to 17% for all other IPOs.

Deal Value & Over-Allotment*

» Three of seven (43%) E&P IPOs priced between $250 million and $500 million.

» The over-allotment option was partially or fully exercised in five of seven (71%) E&P IPOs, compared to 85% for all other IPOs.

*Deal value excludes exercise of the over-allotment option.
Confidential Submission, Testing-the-Waters & Financial Statements

Overview
» Six of seven (86%) E&P IPOs were EGCs, compared to 77% for all other IPOs.

Confidential Submission
» All E&P EGCs elected confidential submission, the same as all other EGCs.

Testing-the-Waters*
» No E&P EGC issuers reported that they conducted testing-the-waters, compared to 26% for all other EGCs.

Years of Financial Statements
» All six E&P EGCs included two years of audited financial statements (compared to 70% for all other EGCs) and two years of selected financial statements (compared to 53% for all other EGCs).

Years of Audited Financial Statements
- 2 years: 100%
- 3 years (none)

Years of Selected Financial Statements
- 2 years
- 3 years (none)
- 4 years (none)
- 5 years (none)

*Based on publicly available SEC comment and response letters.
Accounting/Internal Controls & Flash Results

Accounting/Internal Controls

» Of the seven E&P IPOs:
  - None had a going-concern qualification.
  - One (13%) disclosed a material weakness in internal control over financial reporting.
  - None had restated financial statements.

Flash Results

» Five of seven (71%) E&P IPOs priced within 45 days of the end of the fourth quarter of 2015 and the first, second or third quarter of 2016.
  - None showed flash results.

*Based on one IPO with material weakness in internal control.
Net Income/Loss & Adjusted EBITDA

Net Income/Loss

» Five of seven (71%) E&P issuers had a net loss, compared to 55% for all other issuers.

Pricing vs. Range

- E&P issuers with a net loss: 20% Below range, 40% In range, 40% Above range
- All other issuers with a net loss: 24% Below range, 40% In range, 36% Above range
- E&P issuers with net income: 50% Below range, 50% In range, 0% Above range
- All other issuers with net income: 70% Below range, 22% In range, 8% Above range

Aftermarket Performance

- E&P issuers with a net loss: -1% Average Offer: 1 Day, 0% Average Offer: 30 Days, 2% Average Offer: 90 Days
- E&P issuers with net income: 16% Average Offer: 1 Day, 26% Average Offer: 30 Days, 22% Average Offer: 90 Days
- All other issuers: 8% Average Offer: 1 Day, 22% Average Offer: 30 Days, 61% Average Offer: 90 Days

Adjusted EBITDA

» Six of seven (86%) E&P issuers disclosed Adjusted EBITDA or EBITDAX, compared to 43% for all other issuers.
SEC Comments

Total First Round SEC Comments*

On average, the number of total first round SEC comments for E&P IPOs was higher than for all other IPOs, though the median number of comments was lower.

Number of Total First Round SEC Comments

- Low: E&P IPOs 18, All Other IPOs 2
- Average: E&P IPOs 31, All Other IPOs 26
- Median: E&P IPOs 23, All Other IPOs 25
- High: E&P IPOs 55, All Other IPOs 51

Percentage with Cheap Stock Comment

- E&P IPOs: 0%
- All Other IPOs: 53%

Percentage with Revenue Recognition Comment

- E&P IPOs: 29%
- All Other IPOs: 37%

Percentage with Segment Reporting Comment

- E&P IPOs: 14%
- All Other IPOs: 25%

*Excludes a prior SEC-reviewed issuer.
Timing*

The time period from first submission/filing to pricing for E&P IPOs was longer than the average for all other IPOs.

*Excludes a prior SEC-reviewed issuer and IPOs with confidential submission to pricing greater than 18 months (one in E&P, two for all other IPOs).
IPO Fees and Expenses

Underwriting fees and total IPO expenses (excluding underwriting fees) for E&P IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$4,295,455</td>
<td>$14,903,059</td>
<td>$14,109,375</td>
<td>$34,833,333</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$1,459,870</td>
<td>$3,577,578</td>
<td>$3,600,000</td>
<td>$6,725,000</td>
</tr>
</tbody>
</table>

Legal fees, accounting fees and printing costs for E&P IPOs are set forth below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal***</td>
<td>$412,000</td>
<td>$1,714,769</td>
<td>$2,000,000</td>
<td>$3,031,386</td>
</tr>
<tr>
<td>Accounting***</td>
<td>$304,000</td>
<td>$536,921</td>
<td>$528,450</td>
<td>$760,625</td>
</tr>
<tr>
<td>Printing</td>
<td>$253,000</td>
<td>$656,654</td>
<td>$600,000</td>
<td>$1,126,575</td>
</tr>
</tbody>
</table>

Average IPO Expenses as a Percentage of Base Deal

Average IPO Expenses

*Underwriting fees are the portion of IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.
**Total IPO expenses excludes underwriting fees.
***Excludes one IPO with insufficient information in E&P and one for all other IPOs.
****Excludes two IPOs with insufficient information for all other IPOs.
Deal Structure: Secondary Component, DSPs & Insiders Purchasing

**Secondary Component**
- Two of seven (29%) E&P IPOs had a secondary component, compared to 23% for all other IPOs.

**Directed Share Programs (DSP)**
- Three of seven (43%) E&P IPOs included DSPs, compared to 42% for all other IPOs.

**Insiders Purchasing**
- One of seven (13%) E&P issuers disclosed insiders purchasing in the IPO, compared to 45% for all other issuers.

*Does not include purchases through a DSP.*
Lock-Ups & Carve-Outs

**Lock-Ups**

- Four of seven (57%) E&P IPOs disclosed the percentage or number of shares locked up and of these IPOs and of these IPOs, on average, 99.8% of pre-IPO shares were locked up, compared to 99.3% for all other IPOs.
- Two of seven (29%) disclosed that “substantially all” pre-IPO shares were locked up.*
- Two of seven (29%) E&P IPOs required all bookrunners to release the lock-up, three of seven (42%) required a subset of bookrunners and two of seven (29%) required only the lead left bookrunner.

**Carve-Outs**

- One of seven (13%) E&P IPOs included a carve-out in the issuer lock-up for stock issuances in connection with acquisitions/joint ventures (JVs) and commercial collaborations, compared to 65% for all other IPOs.

*Lock up information for one IPO was indeterminable.
Sponsor-Backed IPOs

**Sponsor-Backed and Management/Termination Fees***

» Four of seven (57%) E&P IPOs were sponsor-backed, compared to 42% for all other IPOs.
  - None of these issuers paid management or termination fees to the sponsor group in connection with the IPO, compared to 16% for all other IPOs.

» The average length of sponsor investment was 6.1 years, the lowest was 1.9 years and the highest was 10.2 years.

**Key Comparisons**

<table>
<thead>
<tr>
<th></th>
<th>Sponsor-Backed</th>
<th>Non-Sponsor-Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of financial services IPOs</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Average market capitalization at pricing</td>
<td>$1.3bn</td>
<td>$834mm</td>
</tr>
<tr>
<td>Average number of directors*</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Average number of independent directors*</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Average number of total first round SEC comments</td>
<td>25</td>
<td>39</td>
</tr>
<tr>
<td>Average number of days from first submission/filing to pricing date</td>
<td>238</td>
<td>271</td>
</tr>
<tr>
<td>Average total IPO expenses (excluding underwriting fees)</td>
<td>$2.6mm</td>
<td>$4.9mm</td>
</tr>
</tbody>
</table>

*Excludes FPIs (subject to home jurisdiction governance rules).
Financial Services
**Proskauer IPO Database**

2016: Eight IPOs (12% of 2016)

2015: Eight IPOs (9% of 2015)

2014: 14 IPOs (12% of 2014)

2013: 11 IPOs (11% of 2013)

**Total: 41 Financial Services IPOs**

In 2016, the financial services sector IPOs analyzed include: two insurance-related companies, four bank holding companies, an exchange operator and an investment services company.

**All Over the Map** – One might expect issuers in the financial services sector to be concentrated with headquarters in the world’s financial centers, such as New York or London. Instead financial services issuers in 2016 had home bases in Hawaii, Kansas and Tennessee, among other mid-western and southern states. In addition, two of the financial services issuers in our study were FPIs, with headquarters in Argentina and China.

**Disclosure of Sector-Specific Financial Measures** – While issuers in the financial services sector disclose Adjusted EBITDA less frequently than any other sector, these issuers disclose a variety of other non-GAAP financial measures and other financial metrics, including adjusted net trading income, adjusted net income, efficiency ratios and tangible stockholders equity. In addition, bank holding companies typically included selected loan metrics and asset quality and capital ratios.

**Fewest Comments** – Financial services issuers received the fewest first round SEC comments as compared to all other sectors. These issuers had the fewest average (16) and median (16) comments and also had the lowest counts for fewest (two) and highest (30) comments. This trend continued for the average number of comments in the second and third round of comments, as well. Financial services issuers also received the lowest number of financial and accounting comments, which may be explained in part because issuers in the financial services sector tend to be subject to overlapping regulatory regimes and government agencies.

**Shortest Time to Pricing** – IPOs in the financial services sector had the shortest average number of days from first submission/filing to pricing with 177, as compared to an average of 227 from all other sectors.

**More Financial Information is More?** – In 2015, our survey indicated that IPO issuers in the financial services sector might be moving towards less financial disclosures. That was not the case in 2016 as only 20% of financial services EGCs included two years of audited financial statements, as compared to 80% for all other EGCs. In addition, 60% of financial services EGCs included a full five years of selected financial statements, as compared to 7% for all other EGCs. Financial services issuers also, generally, had fewer accounting or internal control issues and all had positive net income.

**Increased Secondary Component** – 75% of financial services IPOs had a secondary component, compared to 17% for all other sectors. Since 2014, financial services has had more IPOs with a secondary component than for all other IPOs. In 2016 and 2015, financial services IPOs with a secondary component had management purchases in 33% of IPOs, compared to 20% in 2016 and 29% in 2015 for all other IPOs. Also, there was no insiders purchasing in financial services IPOs surveyed in 2016.
Financial Services Market Analysis

Overview
» We analyzed eight financial services IPOs in 2016.
  ▪ Four (50%) bank holding companies.
  ▪ Two (25%) insurance related companies.
  ▪ One (12.5%) investment services company.
  ▪ One (12.5%) exchange operator.
» Two of eight (25%) were FPIs, with headquarters in Argentina and China.
» The U.S. financial services issuers were headquartered in five states: Hawaii, Illinois, Kansas, Tennessee and Virginia. Also, one was headquartered in Bermuda.

Deal Execution
» One of eight (13%) financial services IPOs priced below the range, compared to 34% for all other IPOs.

Deal Value & Over-Allotment*
» Most financial services IPOs priced between $100 million and $500 million.
» The over-allotment option was partially or fully exercised in seven of eight (88%) financial services IPOs, compared to 83% for all other IPOs.

*Deal value excludes exercise of the over-allotment option.
Confidential Submission, Testing-the-Waters & Financial Statements

Overview
» Five of eight (63%) financial services IPOs were EGCs, compared to 80% for all other IPOs.

Confidential Submission
» All financial services EGC IPOs elected confidential submission, the same as all other EGCs.

Testing-the-Waters*
» No financial services EGC issuers reported that they conducted testing-the-waters, compared to 26% for all other EGCs.

Years of Financial Statements
» 20% of financial services EGCs included two years of audited financial statements (compared to 80% for all other EGCs) and 60% included five years of selected financial statements (compared to 7% for all other EGCs).

*Based on publicly available SEC comment and response letters.
Accounting/Internal Controls

» Of the eight financial services IPOs:
  - None had a going-concern qualification.
  - Two (25%) disclosed a material weakness in internal control over financial reporting.
  - None had restated financial statements.

Flash Results

» Four of eight (50%) financial services IPOs priced within 45 days of the end of the fourth quarter of 2015 and the first, second or third quarter of 2016.
  - Three of these four (75%) showed flash results.
Net Income/Loss & Adjusted EBITDA

Net Income/Loss

» All financial services issuers had net income, compared to 36% for all other issuers with net income.

Adjusted EBITDA

» One of eight (13%) financial services issuers disclosed Adjusted EBITDA, compared to 53% for all other issuers.
SEC Comments

Total First Round SEC Comments*
» On average, the number of total first round SEC comments for financial services IPOs was lower than all other IPOs.

Number of Total First Round SEC Comments

- Low: 2 (Financial Services) vs. 8 (All other)
- Average: 16 (Financial Services) vs. 28 (All other)
- Median: 16 (Financial Services) vs. 27 (All other)
- High: 30 (Financial Services) vs. 55 (All other)

Percentage with Cheap Stock Comment
- Financial Services: 25% vs. 51% (All other)

Percentage with Revenue Recognition Comment
- Financial Services: 13% vs. 39% (All other)

Percentage with Segment Reporting Comment
- Financial Services: 13% vs. 25% (All other)

*Excludes a prior SEC-reviewed issuer.
The time period from first submission/filing to pricing for financial services IPOs was shorter than the average for all other IPOs.

*Excludes a prior SEC-reviewed issuer and IPOs with confidential submission to pricing greater than 18 months (none in financial services, two for all other IPOs).
Corporate Governance: Key Items

**Controlled Company Exemption***

» Two of five (40%) financial services issuers were eligible for the controlled company exemption, compared to 14% for all other issuers.
  - Both of these issuers elected to take advantage of the exemption.

**Director Independence***

» Four of five (80%) financial services issuers had a majority of independent directors on their boards, compared to 72% for all other issuers.
  - On average, these four issuers had 59% board independence.

**Composition of Board**

<table>
<thead>
<tr>
<th>Financial Services IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average # of directors</td>
<td>9</td>
</tr>
<tr>
<td>Average # of independent directors</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

**Separation of Chairman & CEO Roles***

» Three of five (60%) financial services issuers separated their Chairman and CEO roles, the same as all other issuers.

**Classes of Common Stock***

» Two of five (40%) financial services issuers had multiple classes of common stock, compared to 14% for all other issuers.

*Excludes FPIs (subject to home jurisdiction governance rules) (two in financial services, eight for all other IPOs) and an issuer listed on the Bats BZX Exchange.
## IPO Fees and Expenses

### Underwriting fees and total IPO expenses (excluding underwriting fees)

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$5,203,420</td>
<td>$16,028,256</td>
<td>$8,778,066</td>
<td>$54,000,000</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$2,082,585</td>
<td>$4,616,971</td>
<td>$3,685,322</td>
<td>$9,825,000</td>
</tr>
</tbody>
</table>

### Legal fees, accounting fees and printing costs

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal***</td>
<td>$800,000</td>
<td>$1,806,856</td>
<td>$1,598,997</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Accounting***</td>
<td>$351,358</td>
<td>$1,159,106</td>
<td>$882,500</td>
<td>$2,950,000</td>
</tr>
<tr>
<td>Printing</td>
<td>$150,000</td>
<td>$483,750</td>
<td>$350,000</td>
<td>$1,490,000</td>
</tr>
</tbody>
</table>

### Average IPO Expenses as a Percentage of Base Deal

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Financial services IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting fees*</td>
<td>5.84%</td>
<td>6.44%</td>
</tr>
<tr>
<td>Legal***</td>
<td>1.10%</td>
<td>1.91%</td>
</tr>
<tr>
<td>Accounting***</td>
<td>0.66%</td>
<td>1.01%</td>
</tr>
<tr>
<td>Printing</td>
<td>0.23%</td>
<td>0.40%</td>
</tr>
</tbody>
</table>

### Average IPO Expenses

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Financial services IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal***</td>
<td>$1.81</td>
<td>$2.34</td>
</tr>
<tr>
<td>Accounting***</td>
<td>$1.16</td>
<td>$1.31</td>
</tr>
<tr>
<td>Printing</td>
<td>$0.48</td>
<td>$0.47</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$4.62</td>
<td>$4.74</td>
</tr>
</tbody>
</table>

*Underwriting fees are the portion of IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.
**Total IPO expenses excludes underwriting fees.
***Excludes one IPO in financial services with insufficient information and two for all other IPOs.
Deal Structure:
Secondary Component & Management Sales

**Secondary Component**
- Six of eight (75%) financial services IPOs had a secondary component, compared to 17% for all other IPOs.

**Aftermarket Performance**

<table>
<thead>
<tr>
<th></th>
<th>Average Offer: 1 Day</th>
<th>Average Offer: 30 Days</th>
<th>Average Offer: 90 Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services IPOs with a secondary component</td>
<td>9% 5% 17%</td>
<td>18% 16% 3%</td>
<td>26% 28% 18%</td>
</tr>
<tr>
<td>All other IPOs with a secondary component</td>
<td>9% 5% 17%</td>
<td>18% 16% 3%</td>
<td>26% 28% 18%</td>
</tr>
<tr>
<td>Financial services IPOs without a secondary component</td>
<td>0% 0% 0%</td>
<td>0% 0% 0%</td>
<td>0% 0% 0%</td>
</tr>
<tr>
<td>All other IPOs without a secondary component</td>
<td>0% 0% 0%</td>
<td>0% 0% 0%</td>
<td>0% 0% 0%</td>
</tr>
</tbody>
</table>

**Management Sales**
- Management sold shares in the base offering in two of six (33%) financial services IPOs with a secondary component, compared to 20% for all other IPOs with a secondary component.

**Percentage of Secondary IPOs with Management Sales**

<table>
<thead>
<tr>
<th></th>
<th>Financial Services IPOs with a secondary component</th>
<th>All other IPOs with a secondary component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>33%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Deal Structure: DSPs & Insiders Purchasing

**Directed Share Programs (DSPs)**

» Five of eight (63%) financial services IPOs included DSPs, compared to 39% for all other IPOs.

**Insiders Purchasing***

» None of the financial services issuers disclosed insiders purchasing in the IPO, compared to 48% for all other IPOs.

*Does not include purchases through a DSP.
Lock-Ups & Carve-Outs

**Lock-Ups**

» Seven of eight (88%) financial services IPOs disclosed the percentage or number of shares locked up and of these IPOs, on average, 100% of pre-IPO shares were locked up*, compared to 99.2% all other IPOs.**

» Three of eight (37.5%) financial services IPOs required all bookrunners to release the lock-up, three of eight (37.5%) required a subset of bookrunners and two of eight (25%) required only the lead left bookrunner.

**Carve-Outs**

» Three of eight (38%) financial services IPOs included a carve-out in the issuer lock-up for stock issuances in connection with acquisitions/joint ventures (JVs) and commercial collaborations, compared to 63% for all other IPOs.

---

*Excludes one outlier.

**Lock up information for one IPO was indeterminable.
Sponsor-Backed IPOs

Sponsor-Backed and Management/Termination Fees*

- Three of eight (38%) financial services IPOs were sponsor-backed, compared to 44% for all other IPOs.
  - None of these issuers paid management or termination fees to the sponsor group in connection with the IPO, compared to 15% for all other issuers.

- The average length of sponsor investment for financial services IPOs was 4.1 years, the lowest 2.7 years and the highest 5.6 years.

Key Comparisons

<table>
<thead>
<tr>
<th></th>
<th>Sponsor-Backed</th>
<th>Non-Sponsor-Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of financial services IPOs</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Average market capitalization at pricing</td>
<td>$3.4bn</td>
<td>$1.1mm</td>
</tr>
<tr>
<td>Average number of directors*</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Average number of independent directors*</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Average number of total first round SEC comments</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Average number of days from first submission/filing to pricing date</td>
<td>153</td>
<td>192</td>
</tr>
<tr>
<td>Average total IPO expenses (excluding underwriting fees)</td>
<td>$4.8mm</td>
<td>$4.5mm</td>
</tr>
</tbody>
</table>

*Excludes FPIs (subject to home jurisdiction governance rules).
Industrials Executive Summary

**Proskauer IPO Database**
2016: Six IPOs (9% of 2016)
2015: 10 IPOs (11% of 2015)
2014: 14 IPOs (12% of 2014)
2013: 10 IPOs (10% of 2013)
*Total: 40 Industrials IPOs*

IPOs in this sector represented a diverse range of industries, including two machinery and one of each in automotive, chemicals, construction/building and metals.

**Continued Muted Pricing** – No industrials IPOs priced above the range in 2016. This continues a pricing trend for IPOs in this sector, as no industrials IPO studied in 2015 priced above the range and only one IPO studied in 2014 priced above the range. A greater number of industrials IPOs priced within the range in 2016 than in 2015, but underwriters were less likely to exercise their over-allotment option.

**Lowest Percentage of EGCs** – The industrials sector had the lowest percentage of EGC issuers of any sector. After seeing the percentage of EGC industrials issuers increase to 70% in 2015 from about half in 2014, we noted a significantly lower percentage of industrials IPO issuers that were EGCs in 2016. Only 17% of industrials issuers in 2016 were EGCs, as compared to 84% for all other issuers.

**Sponsor-backed and Controlled** – Almost all of the industrials issuers in 2016 were sponsor-backed (83%) and qualified as controlled companies (83%). All of the industrials issuers that qualified as controlled companies elected to take advantage of some of the exemptions available to controlled companies.

**Significant Disclosure of Adjusted EBITDA** – Adjusted EBITDA continues to be a significant metric for industrials IPO issuers. In 2016, all industrials IPOs disclosed Adjusted EBITDA, compared to 43% for all other IPO issuers. This was also an area of significant focus for the SEC, as 83% of industrials issuers received a comment relating to their use of Non-GAAP measures. Typical addbacks to Adjusted EBITDA included compensation expenses, IPO and transaction (acquisition or disposition) related expenses, management and monitoring fees, restructuring and impairment costs.

**Significant Disclosure of Operating Metrics** – In addition to disclosure of non-GAAP metrics, such as Adjusted EBITDA, 83% of industrials issuers disclosed operating metrics in their summary financial statements. This was the second highest average of any sector, trailing only financial services. Operating metrics disclosed by industrials issuers included active customers, manufacturing line capacity, sales volume, same-store sales growth and vehicle units sold.

**More Flash** – Industrials IPOs were more likely to include preliminary financial results, or flash results, than any other sector. Half of industrials IPOs included flash results, as compared to an average of 21% for all other IPOs. Industrials issuers also provided rather fulsome disclosures of their preliminary financial results and included net sales, Adjusted EBITDA, total billings, cash and cash equivalents and debt. All of these issuers presented their flash results as ranges.

**Higher Accounting Costs** – Industrials IPOs had significantly higher accounting costs than other sectors. Average accounting costs were the highest as compared to other sectors and almost double the average for all other sectors.
Industrials Market Analysis

Overview

» We analyzed six industrials IPOs in 2016.
   - Two (32%) Machinery.
   - One (17%) Auto/Truck.
   - One (17%) Chemicals.
   - One (17%) Construction/Building.
   - One (17%) Metals.

» None were FPIs.

» The U.S. industrials issuers were headquartered in four states: Georgia (2), Illinois (2), Arizona and Kentucky.

Deal Execution

» No industrials IPOs priced above the range, compared to 20% for all other IPOs.

Deal Value & Over-Allotment*

» 83% of the industrials IPOs had deal values below $250 million.

» The over-allotment option was partially or fully exercised in five of six (83%) industrials IPOs, compared to 84% for all other IPOs.

*Deal value excludes exercise of the over-allotment option.
Emerging Growth Company Overview

Overview

» One of six (17%) industrials IPOs were EGCs, compared to 84% for all other IPOs.

- This issuer elected confidential submission, the same as all other EGCs.
- This issuer did not conduct testing-the-waters, compared to 24% for all other EGCs.*

*Based on publicly available SEC comment and response letters.
Accounting/Internal Controls & Flash Results

Accounting/Internal Controls
» Of the six industrials IPOs:
   - None had a going-concern qualification.
   - Two (33%) disclosed a material weakness in internal control over financial reporting.
   - None had restated financial statements.

Flash Results
» Three of six (50%) industrials IPOs priced within 45 days of the end of the first, second or third quarter.
   - Two of these three (67%) showed flash results.
Net Income/Loss & Adjusted EBITDA

Net Income/Loss

» Four of six (67%) industrials issuers had net income, compared to 41% for all other issuers with net income.

Adjusted EBITDA

» All industrials issuers disclosed Adjusted EBITDA, compared to 43% for all other issuers.

» Typical addbacks to Adjusted EBITDA included compensation expenses, IPO and transaction (acquisition or disposition) related expenses, management and monitoring fees, restructuring and impairment costs.
Total First Round SEC Comments*

- On average, the number of total first round SEC comments for industrials IPOs was higher than for all other IPOs.

Number of Total First Round SEC Comments

- Industrials IPOs
- All Other IPOs

Percentage with Cheap Stock Comment

- Industrials IPOs: 33%
- All Other IPOs: 49%

Percentage with Revenue Recognition Comment

- Industrials IPOs: 50%
- All Other IPOs: 34%

Percentage with Segment Reporting Comment

- Industrials IPOs: 67%
- All Other IPOs: 20%

*Excludes a prior SEC-reviewed issuer.
Timing

Timing*

» The time period from first submission/filing to pricing for industrials IPOs was longer the average for all other IPOs.

Average Number of Days From First Submission/Filing to Pricing

Industrials IPOs

All Other IPOs

Average Number of Days From First Submission/Filing to Pricing

Industrials

Average Number of Days From First Submission/Filing to Pricing

2016

2015

2014

*Excludes a prior SEC-reviewed issuer and IPOs with confidential submission to pricing greater than 18 months (none in Industrials, two for all other IPOs).
Corporate Governance: Key Items

**Controlled Company Exemption**

- Five of six (83%) industrials issuers were eligible for the controlled company exemption, compared to 39% for all other issuers.
  - All five elected to take advantage of the exemption.

**Director Independence**

- Two of six (33%) industrials issuers had a majority of independent directors on their boards, compared to 78% for all other issuers.
  - On average, these two had 75% board independence.

**Composition of Board**

<table>
<thead>
<tr>
<th>Average # of directors</th>
<th>Industrials IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

**Separation of Chairman & CEO**

- Five of six (83%) industrials issuers separated their Chairman and CEO roles, compared to 57% for all other issuers.

**Classes of Common Stock**

- One of six (17%) industrials issuers had multiple classes of common stock, compared to 16% for all other issuers.

*Excludes FPIs (subject to home jurisdiction governance rules) (none in industrials, 10 for all other issuers).
IPO Fees and Expenses

Underwriting fees and total other IPO expenses (excluding underwriting fees) for industrials IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$3,850,000</td>
<td>$15,093,333</td>
<td>$12,585,000</td>
<td>$34,650,000</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$5,000,000</td>
<td>$6,411,739</td>
<td>$6,500,000</td>
<td>$8,170,431</td>
</tr>
</tbody>
</table>

Legal fees, accounting fees and printing costs for industrials IPOs are set forth below:

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal</td>
<td>$2,000,000</td>
<td>$2,940,814</td>
<td>$2,550,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Accounting</td>
<td>$1,900,000</td>
<td>$2,284,832</td>
<td>$2,080,000</td>
<td>$3,518,993</td>
</tr>
<tr>
<td>Printing</td>
<td>$340,725</td>
<td>$623,454</td>
<td>$600,000</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

Average IPO Expenses as a Percentage of Base Deal

*Underwriting fees are the portion of IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.
**Total IPO expenses excludes underwriting fees.
***Excludes two IPOs with insufficient information for all other IPOs.
Deal Structure: Secondary Component, DSPs & Insiders Purchasing

**Secondary Component**

- Two of six (33%) industrials IPOs had a secondary component, compared to 23% for all other IPOs.

**Aftermarket Performance**

- Aftermarket Performance Bar Chart

**Directed Share Programs (DSPs)**

- Three of six (50%) industrials IPOs included DSPs, compared to 41% for all other IPOs.

**Insiders Purchasing**

- One of six (17%) industrials issuers disclosed insiders purchasing in the IPO, compared to 44% for all other IPOs.

*Does not include purchases through a DSP.*
Lock-Ups & Carve-Outs

**Lock-Ups**

» Four of six (67%) industrials IPOs disclosed the percentage or number of shares locked up and of these IPOs, on average, 99.98% of pre-IPO shares were locked up, compared to 99.27% for all other IPOs.

» Two of six (33%) disclosed that “substantially all” pre-IPO shares were locked up.

» Three of six (50%) required all bookrunners to release the lock-up, two of six (33%) required a subset of bookrunners and one of six (17%) required only the lead left bookrunner.

**Carve-Outs**

» Four of six (67%) industrials IPOs included a carve-out in the issuer lock-up for stock issuances in connection with acquisitions/joint ventures (JVs) and commercial collaborations, compared to 59% for all other IPOs.
Sponsor-Backed and Management/Termination Fees

» Five of six (83%) industrials IPOs were sponsor-backed, compared to 39% for all other IPOs.
  ■ Two of these five (40%) issuers paid management or termination fees to the sponsor group in connection with the IPO, compared to 8% for all other IPOs.

The average length of sponsor investment for industrials IPOs was 3.3 years, the lowest 2.2 years and the highest 5.5 years.
Consumer/Retail
Consumer/Retail Executive Summary

**Proskauer IPO Database**

2016: Seven IPOs (10% of 2016)
2015: 12 IPOs (13% of 2015)
2014: 13 IPOs (11% of 2014)
2013: 14 IPOs (14% of 2013)

**Total: 46 Consumer IPOs**

IPOs in the consumer/retail sector were geographically diverse, headquartered in seven states, and represented a cross section of industries, including two of each in food and beverage, consumer products, leisure & recreation and one in retail.

**Pricing and Performance Fall Back In line** – In 2015, 58% of consumer/retail IPOs priced above the range and performed significantly better than other sectors. However, in 2016 only 14% of consumer/retail IPOs priced above the range. In 2016, performance of consumer/retail IPOs was relatively muted and trailed all other sectors at days 90 and 180 and all but one sector at day 30.

**Continued Disclosures of Material Weaknesses** – For a second year in a row, at least half of consumer/retail issuers disclosed a material weakness. In 2016, 57% of consumer/retail issuers disclosed a material weakness compared to 35% for all other issuers. One consumer/retail issuer in our study included financial statements that had been restated. These accounting disclosures do not appear to have impacted pricing.

**Significant Disclosure of Adjusted EBITDA** – Adjusted EBITDA continues to be a significant metric for consumer/retail IPO issuers. In 2016, all consumer/retail IPOs disclosed Adjusted EBITDA, compared to 42% for all other IPO issuers. This was also an area of significant focus for the SEC in the review process, as all consumer/retail issuers received a comment relating to their use of Non-GAAP measures. Typical addbacks to Adjusted EBITDA included compensation expenses, costs associated with new store openings, IPO-related expenses, legal settlements, management fees, non-cash items and restructuring costs.

**Shorter Time to Pricing** – On average, it took consumer/retail IPOs 184 days from first submission/filing to the pricing of an IPO. This was the second shortest time period among the sectors studied in 2016, trailing only financial services. The average for all other sectors was 225 days. This quick timing comes in spite of receiving more comments on average than issuers in other sectors. It may be worth noting that while most other sectors showed a significant increase in the time from first submission/filing to pricing year-over-year, the average time increased for consumer/retails issuers by only two days from 182 days in 2015.

**Pre-IPO Income Generators** – All of the consumer/retail IPOs we analyzed in 2016 had net income, as compared with 63% for all other issuers having a net loss in our overall study. This is similar to what we found in last year’s study where only one (8%) of the 2015 consumer/retail IPOs we analyzed had a net loss. Unlike companies in the health care and TMT sectors, which often are valued on future earning potential, consumer/retail issuers typically have track records of generating income.

**Segment Comments** – 57% of consumer/retail issuers received a comment from the SEC relating to segments, as compared to 20% for all other IPO issuers. Consumer/retail issuers may be more likely to receive a segment comment due to the fact that they often have different product lines that give rise to the issue of whether the product lines constitute separate reportable segments.
Consumer/Retail Market Analysis

Overview

» We analyzed seven consumer/retail IPOs in 2016.
  ▪ Two (29%) consumer products.
  ▪ Two (29%) food and beverage.
  ▪ Two (29%) leisure and recreation.
  ▪ One (13%) retail.

» None were FPIs.

» The U.S. consumer/retail issuers were headquartered in seven states: California, Illinois, Kentucky, Massachusetts, Nevada, Ohio and Texas.

Deal Execution

» Four of seven (57%) consumer/retail IPOs priced in range, compared to 50% for all other IPOs.

Deal Value & Over-Allotment*

» Deal values for consumer/retail IPOs were relatively dispersed.

» The over-allotment option was partially or fully exercised in all consumer/retail IPOs, compared to 82% for all other IPOs.

*Deal value excludes exercise of the over-allotment option.
Confidential Submission, Testing-the-Waters & Financial Statements

Overview
» Three of seven (43%) consumer/retail IPOs were EGCs, compared to 82% for all other IPOs.

Confidential Submission
» All three consumer/retail EGCs elected confidential submission, the same as all other EGCs.

Testing-the-Waters*
» None of the consumer/retail EGC IPOs reported that they conducted testing-the-waters, compared to 24% for all other EGCs.

Years of Financial Statements
» 67% of consumer/retail EGCs included two years of audited financial statements (compared to 74% for all other EGCs) and 34% included two years of selected financial statements (compared to 61% for all other EGCs).

*Based on publicly available SEC comment and response letters.
Accounting/Internal Controls & Flash Results

Accounting/Internal Controls
» Of the seven consumer/retail IPOs:
  - None had a going-concern qualification.
  - Four (57%) disclosed a material weakness in internal control over financial reporting.
  - One (14%) had restated financial statements.

Flash Results
» Five of seven (71%) consumer/retail IPOs priced within 45 days of the end of the fourth quarter of 2015 and the first, second or third quarter of 2016.
  - Three of these five (60%) showed flash results.

*Based on one IPO with restated financial statements.
Net Income/Loss & Adjusted EBITDA

Net Income/Loss
» All consumer/retail issuers had net income, compared to 37% for all other issuers with net income.

Adjusted EBITDA
» All seven consumer/retail issuers disclosed Adjusted EBITDA, compared to 42% for all other issuers.
» Typical add backs in this sector include IPO costs, equity-based compensation expenses, pre-opening expenses, deferred rent and management fees.
Total First Round SEC Comments*

» On average, the number of total first round SEC comments for consumer/retail IPOs were higher than all other IPOs.

Number of Total First Round SEC Comments

<table>
<thead>
<tr>
<th></th>
<th>Consumer/Retail IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Average</td>
<td>34</td>
<td>25</td>
</tr>
<tr>
<td>Median</td>
<td>32</td>
<td>24</td>
</tr>
<tr>
<td>High</td>
<td>51</td>
<td>55</td>
</tr>
</tbody>
</table>

Percentage with Cheap Stock Comment

<table>
<thead>
<tr>
<th></th>
<th>Consumer/Retail IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>43%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Percentage with Revenue Recognition Comment

<table>
<thead>
<tr>
<th></th>
<th>Consumer/Retail IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Percentage with Segment Reporting Comment

<table>
<thead>
<tr>
<th></th>
<th>Consumer/Retail IPOs</th>
<th>All Other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>57%</td>
<td>20%</td>
</tr>
</tbody>
</table>

*Excludes a prior SEC-reviewed issuer.
Timing

*Excludes a prior SEC-reviewed issuer and IPOs with confidential submission to pricing greater than 18 months (none in consumer/retail, two for all other IPOs).
Corporate Governance: Key Items

**Controlled Company Exemption***

» Five of seven (71%) consumer/retail issuers were eligible for the controlled company exemption, compared to 40% for all other issuers.
  - Three of these five (60%) elected to take advantage of the exemption.

**Director Independence***

» Four of seven (57%) consumer/retail issuers had a majority of independent directors on their boards, compared to 75% for all other issuers.
  - On average, these four had 71% board independence.

---

**Composition of Board**

<table>
<thead>
<tr>
<th></th>
<th>Consumer/Retail IPOs</th>
<th>All other IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average # of directors</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Average # of independent directors</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

---

**Separation of Chairman & CEO Roles***

» Five of seven (71%) consumer/retail issuers separated their Chairman and CEO roles, compared to 59% for all other issuers.

---

**Classes of Common Stock***

» One of seven (14%) consumer/retail issuers had multiple classes of common stock, compared to 17% for all other issuers.

---

*Excludes FPIs (subject to home jurisdiction governance rules) (none in consumer/retail, 10 for all other IPOs).
IPO Fees and Expenses

Underwriting fees and total other IPO expenses (excluding underwriting fees) for consumer/retail IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Fees*</td>
<td>$3,780,000</td>
<td>$19,443,829</td>
<td>$13,973,400</td>
<td>$48,555,555</td>
</tr>
<tr>
<td>Total IPO Expenses**</td>
<td>$3,116,838</td>
<td>$5,481,816</td>
<td>$5,652,074</td>
<td>$9,335,884</td>
</tr>
</tbody>
</table>

Legal fees, accounting fees, and printing costs for consumer/retail IPOs are set forth below:

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal***</td>
<td>$1,500,000</td>
<td>$2,934,345</td>
<td>$2,715,000</td>
<td>$5,640,000</td>
</tr>
<tr>
<td>Accounting****</td>
<td>$460,000</td>
<td>$1,386,167</td>
<td>$1,400,000</td>
<td>$2,052,338</td>
</tr>
<tr>
<td>Printing</td>
<td>$270,000</td>
<td>$594,286</td>
<td>$600,000</td>
<td>$1,080,000</td>
</tr>
</tbody>
</table>

Average IPO Expenses as a Percentage of Base Deal

Average IPO Expenses

Underwriting fees are the portion of IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.

Total IPO expenses excludes underwriting fees.

Excludes one IPO in consumer/retail and one IPO for all others with insufficient information.

Excludes two IPOs with insufficient information for all other IPOs.
Deal Structure: Secondary Component, DSPs & Insiders Purchasing

Secondary Component

» Four of seven (57%) consumer/retail IPOs had a secondary component, compared to 20% for all other IPOs.

Directed Share Programs (DSPs)

» Four of seven (57%) consumer/retail IPOs included DSPs, compared to 40% for all other IPOs.

Insiders Purchasing*

» One of seven (14%) consumer/retail issuers disclosed insiders purchasing in the IPO, compared to 45% for all other IPOs.

*Does not include purchases through a DSP.
Lock-Ups & Carve-Outs

**Lock-Ups**

» Five of seven (71%) consumer/retail IPOs disclosed the percentage or number of shares locked up and of these IPOs, on average, 98.6% of pre-IPO shares were locked up, compared to 99.5% for all other IPOs.

» Two of seven (29%) consumer/retail IPOs disclosed that “substantially all” pre-IPO shares were locked up.

» One of seven (14%) consumer/retail IPOs required all bookrunners to release the lock-up, five of seven (72%) required a subset of bookrunners and one of 7 (14%) required only the lead left bookrunner.

**Carve-Outs**

» Three of seven (43%) consumer/retail IPOs included a carve-out in the issuer lock-up for stock issuances in connection with acquisitions/joint ventures (JVs) and commercial collaborations, compared to 62% for all other IPOs.

![Diagram showing lock-up release percentages](Diagram.png)

![Diagram showing percentage of IPOs with carve-out for acquisitions/JVs](Diagram.png)
Sponsor-Backed and Management/Termination Fees

» Six of seven (86%) consumer/retail IPOs were sponsor-backed, compared to 38% for all other IPOs.
  ▪ Two of these six (33%) issuers paid management or termination fees to the sponsor group in connection with the IPO, compared to 9% for all other IPOs.

The average length of sponsor investment for consumer/retail IPOs was 5.9 years, the lowest was 2.6 years and the highest was 8.9 years.
Appendix

Foreign Private Issuers
FPI Market Analysis

Overview

» There are 41 FPI IPOs in our database from 2014 – 2016.
» We analyzed 10 FPI IPOs in 2016, representing 15% of our overall study.
» The 10 FPI issuers were headquartered in eight jurisdictions and incorporated in seven jurisdictions.
» In 2016, the most common headquarter was China (3), and the most common jurisdictions of incorporation were Cayman Islands (3) and the Netherlands (2).

FPIs by Headquarters 2014-2016

FPIs by Jurisdiction of Incorporation 2014-2016

Sectors Represented

» TMT and health care accounted for a majority of the FPIs in our study.
FPI Market Analysis

Deal Value & Over-Allotment

» The average base deal value for FPI IPOs was $235.4 million in 2016, as compared to $210.8 million for non-FPI IPOs and $196.7 million for FPI IPOs in 2015.*

» The over-allotment option was partially or fully exercised in eight of 10 (80%) FPI IPOs, compared to 84% for non-FPI IPOs.

**Deal value excludes exercise of the over-allotment option.**

**Only includes deals priced before October 1, 2016.**
FPI Market Analysis

**Types of Securities Offered**
- Seven of 10 (70%) FPI issuers offered American depositary receipts (ADRs); three of 10 FPI issuers (30%) offered ordinary shares or common stock.
- Issuers offering ADRs included those incorporated in Argentina, Cayman Islands (3), France, Japan and the Netherlands.
- Issuers offering ordinary shares included those incorporated in Mauritius, Switzerland and the Netherlands.

**Exchange**
- Two of 10 (20%) FPIs dual listed their shares (NYSE/Tokyo and NYSE/Buenos Aires) in 2016, as compared to one (NYSE/TSX) in 2015 and none in 2014.
- Seven of 10 (70%) FPIs listed on NASDAQ, compared to 61% for non-FPI IPOs.
Confidential Submission, Testing-the-Waters & Financial Statements

Overview
» Eight of 10 (80%) FPIs were EGCs, compared to 77% for non-FPI IPOs.

Confidential Submission
» All eight FPI EGCs (100%) confidentially submitted, the same as non-FPI EGCs.

Testing-the-Waters*
» Two of eight (25%) FPI EGCs reported that they conducted testing-the-waters, compared to 23% for non-FPI EGCs.

Years of Financial Statements
» 63% of FPI EGCs included two years of audited financial statements (compared to 76% for non-FPI EGCs) and 50% included two years of selected financial statements (compared to 61% for non-FPI EGCs).

*Based on publicly available SEC comment and response letters.
Revenue, Net Income/Loss & Adjusted EBITDA

Revenue and Net Income/Loss

» No FPI IPOs were by pre-revenue issuers, compared to 9% for non-FPIs.

» Seven of 10 (70%) FPIs had a net loss, compared to 54% for non-FPIs.

Pricing vs. Range

<table>
<thead>
<tr>
<th></th>
<th>FPIs with a net loss</th>
<th>Non-FPIs with a net loss</th>
<th>FPIs with net income</th>
<th>Non-FPIs with net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below range</td>
<td>43%</td>
<td>20%</td>
<td>100%</td>
<td>61%</td>
</tr>
<tr>
<td>In range</td>
<td>57%</td>
<td>48%</td>
<td>0%</td>
<td>27%</td>
</tr>
<tr>
<td>Above range</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Aftermarket Performance

Average Offer: 1 Day
- FPIs with a net loss: 13%
- Non-FPIs with a net loss: 14%
- FPIs with net income: 15%
- Non-FPI IPOs: 15%

Average Offer: 30 Days
- FPIs with a net loss: 22%
- Non-FPIs with a net loss: 22%
- FPIs with net income: 3%
- Non-FPI IPOs: 3%

Average Offer: 90 Days
- FPIs with a net loss: 28%
- Non-FPIs with a net loss: 24%
- FPIs with net income: 28%
- Non-FPI IPOs: 41%

Average Offer: 180 Days*
- FPIs with a net loss: 39%
- Non-FPIs with a net loss: 41%
- FPIs with net income: 39%
- Non-FPI IPOs: 41%

Adjusted EBITDA

» Five of 10 (50%) FPIs disclosed Adjusted EBITDA, compared to 47% for non-FPIs.

*Only includes deals priced before October 1, 2016
IPO Fees and Expenses

IPO Fees and Expenses*

» Underwriting fees and total IPO expenses (excluding underwriting fees) for FPI IPOs are summarized below:

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting</td>
<td>$3,850,000</td>
<td>$10,270,878</td>
<td>$6,851,250</td>
<td>$31,857,630</td>
</tr>
<tr>
<td>Total IPO</td>
<td>$2,647,509</td>
<td>$6,282,910</td>
<td>$4,228,427</td>
<td>$23,926,976</td>
</tr>
<tr>
<td>Expenses**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Underwriting fees are the portion of IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.

**Total IPO expenses excludes underwriting fees.

***Excludes two IPOs in non-FPI IPOs with insufficient information.

Legal*** Accounting*** Printing Total IPO

Average IPO Expenses

Average IPO Expenses as a Percentage of Base Deal

$ millions

<table>
<thead>
<tr>
<th>Fee Category:</th>
<th>Low</th>
<th>Average</th>
<th>Median</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal</td>
<td>$1,490,000</td>
<td>$2,966,300</td>
<td>$2,050,000</td>
<td>$8,326,616</td>
</tr>
<tr>
<td>Accounting</td>
<td>$351,358</td>
<td>$1,780,869</td>
<td>$1,100,000</td>
<td>$8,394,290</td>
</tr>
<tr>
<td>Printing</td>
<td>$225,000</td>
<td>$517,562</td>
<td>$310,000</td>
<td>$1,494,045</td>
</tr>
</tbody>
</table>

Average IPO Expenses as a Percentage of Base Deal

FPI IPOs Non-FPI IPOs

Average IPO Expenses

($ millions)
Deal Structure: Secondary Component & Management Sales

**Secondary Component**

» Three of 10 (30%) FPI IPOs had a secondary component, compared to 23% for non-FPI IPOs.

**Management Sales**

» Management sold shares in the base offering in two of three (67%) FPI IPOs with a secondary component, compared to 15% for non-FPI secondary IPOs.
FPI Accommodations

Confidential Submission

» Certain FPIs that file Form F-1 can submit confidentially, even if not EGCs.
  ■ All 10 FPIs submitted confidentially, which included two non-EGCs and eight EGCs.

![Percentage with Confidential Submission](image)

IFRS vs. U.S. GAAP

» FPIs are permitted to include financial statements prepared in accordance with IFRS.
  ■ Four of 10 (40%) used IFRS.
  ■ Five of 10 (50%) used U.S. GAAP.
  ■ One of 10 (10%) used local GAAP and reconciled to U.S. GAAP.

![FPIs Financial Statements Preparation](image)

Quarterly Financial Statements

» FPIs are not required to include quarterly financial statements.
  ■ One of 10 (10%) FPIs priced their IPOs close enough to the year-end that a quarterly financial presentation would not have been relevant.
  ■ All of the remaining nine included quarterly financial statements even though not required under FPI rules.
FPIs Trend Analysis

**FPIs**

Percentage of IPOs that are FPIs

<table>
<thead>
<tr>
<th>Year</th>
<th>FPIs by IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>16%</td>
</tr>
<tr>
<td>2015</td>
<td>13%</td>
</tr>
<tr>
<td>2016</td>
<td>15%</td>
</tr>
</tbody>
</table>

Pricing vs. Range

<table>
<thead>
<tr>
<th>Year</th>
<th>Below range</th>
<th>In range</th>
<th>Above range</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>26%</td>
<td>42%</td>
<td>32%</td>
</tr>
<tr>
<td>2015</td>
<td>25%</td>
<td>50%</td>
<td>25%</td>
</tr>
<tr>
<td>2016</td>
<td>30%</td>
<td>40%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Number of FPIs by Headquarters

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>China / Hong Kong</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>United Kingdom / Ireland</td>
<td>5</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Israel</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Other European*</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Other**</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

JOBS Act

<table>
<thead>
<tr>
<th>Year</th>
<th>% of FPIs that are EGCs</th>
<th>% of FPI EGCs that included 2 years of audited financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>74%</td>
<td>43%</td>
</tr>
<tr>
<td>2015</td>
<td>92%</td>
<td>36%</td>
</tr>
<tr>
<td>2016</td>
<td>80%</td>
<td>63%</td>
</tr>
</tbody>
</table>

47% increase from '14

Accounting Statements

<table>
<thead>
<tr>
<th>Year</th>
<th>FPIs using IFRS</th>
<th>FPIs using U.S. GAAP***</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>2015</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>2016</td>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>

*Other European includes: 2014 – Belgium, Germany, Monaco, Norway and Spain. 2015 – Austria, Denmark, France and Italy. 2016 – France, Germany, the Netherlands and Switzerland.

**Other includes: 2015 – Australia and Canada (2), 2016 – Argentina, India and Japan.

***In 2016, includes an FPI that used local GAAP and reconciled to U.S. GAAP.
FPIs Trend Analysis

**Expenses**

*Average FPI Expenses as a Percentage of Base Deal*

![Bar chart showing average FPI expenses as a percentage of base deal for 2014, 2015, and 2016.]

<table>
<thead>
<tr>
<th>Expenses</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting fees*</td>
<td>6.0%</td>
<td>6.9%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Legal</td>
<td>1.3%</td>
<td>1.8%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Accounting**</td>
<td>0.6%</td>
<td>0.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Printing</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Total IPO expenses***</td>
<td>4.0%</td>
<td>4.2%</td>
<td></td>
</tr>
</tbody>
</table>

**Median ($mm)**

<table>
<thead>
<tr>
<th>Expenses</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting fees*</td>
<td>$2.2</td>
<td>$2.0</td>
<td>$2.1</td>
</tr>
<tr>
<td>Legal</td>
<td>$0.9</td>
<td>$0.7</td>
<td>$0.9</td>
</tr>
<tr>
<td>Accounting**</td>
<td>$1.1</td>
<td>$0.3</td>
<td>$0.3</td>
</tr>
<tr>
<td>Printing</td>
<td>$0.3</td>
<td>$0.3</td>
<td>$0.3</td>
</tr>
<tr>
<td>Total IPO expenses***</td>
<td>$5.5</td>
<td>$4.1</td>
<td>$4.2</td>
</tr>
</tbody>
</table>

*Underwriting fees are the portion of the IPO base deal that is paid as compensation to the underwriters in the form of a discount or commission.*

**Excludes one IPO with insufficient information.**

***Total IPO expenses excludes underwriting fees.***

****Excludes one IPO in 2014 that is an outlier and one IPO in 2015 that disclosed $10 million in total offering expenses, but did not provide a breakdown of legal, accounting and printing costs.*
Thank You

A very special thanks to Anthony McIntyre, our Global Capital Markets Manager, and James Duong, Senior Corporate Finance Analyst, for their contributions to the 2017 IPO Study.

We would also like to thank the following capital markets associates and staff for their contributions to the study:

# Global Capital Markets

<table>
<thead>
<tr>
<th>Chicago</th>
<th>New York</th>
<th>São Paulo</th>
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<tr>
<td><strong>Michael J. Choate</strong></td>
<td><strong>Julie M. Allen</strong></td>
<td><strong>David Fenwick</strong></td>
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<tr>
<td>Partner, Global Capital Markets</td>
<td>Partner, Global Capital Markets, Global Mergers &amp; Acquisitions</td>
<td>Partner, Latin America</td>
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<td><strong>London</strong></td>
<td><strong>Stuart Bressman</strong></td>
<td><strong>Antonio N. Piccirillo</strong></td>
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<td><strong>Justin Breen</strong></td>
<td><strong>Fabio A. Yamada</strong></td>
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<td>Head, Leveraged Finance</td>
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