

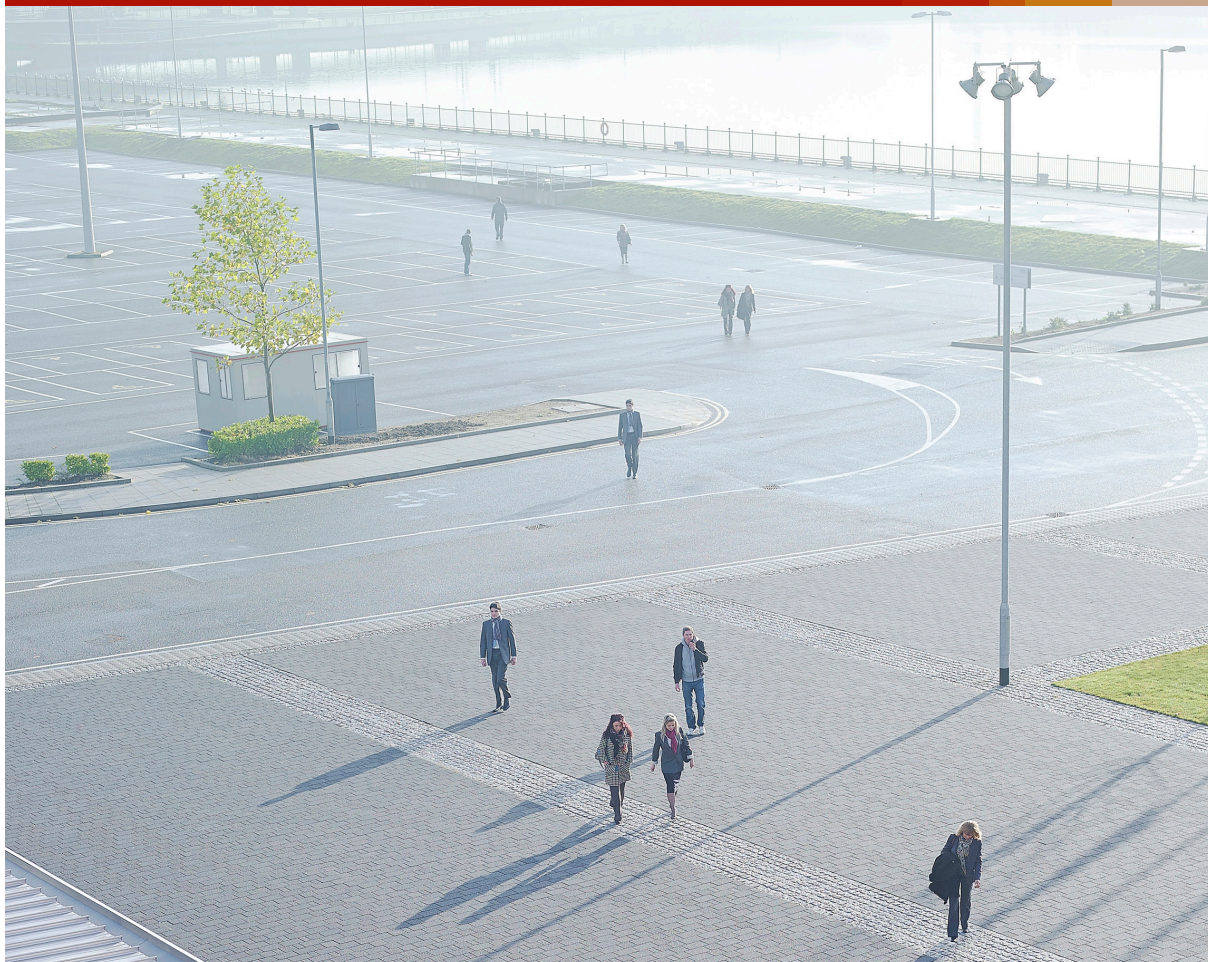
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# *Global Technology* IPO Review Q3 2013

**Technology Institute**

*A quarterly look at global trends in the technology IPO market*

*November 2013*



**pwc**

# Resilience



**Raman Chitkara**

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Industry Leader  
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Welcome to the third quarter 2013 issue of PwC's Global Technology IPO Review. After a slow summer, IPO activity picked up post back-to-school with September accounting for over 50% of the technology IPOs completed in the third quarter of 2013. Overall, the technology sector recorded 13 IPOs versus 11 in Q3 2012. Sequentially, the number of IPOs declined from 16 in Q2 2013 to 13 in Q3 2013. The decline seems to be consistent with historical patterns as many companies are reluctant to complete IPOs during the months of July and August due to perceived lower investor enthusiasm resulting from summer vacations, especially in Europe.

The US IPO market remained strong, due in large part to the US Federal Reserve extending the stimulus programme. US technology IPOs accounted for 83% of total proceeds and 69% of deal volume. The NASDAQ exchange attracted more listings than NYSE in the technology sector.

Unfortunately, due to ongoing regulatory reviews, China's Shanghai and Shenzhen stock exchanges experienced no IPOs for the third quarter in a row. However, two Chinese companies completed their IPOs on NASDAQ and Hong Kong exchanges.

The gradually stabilising European debt market and economy has resulted in an increasing number of PE-backed mid-sized to large IPOs across all sectors. This quarter the UK recorded one technology IPO with greater than US\$40mn deal value.

From a subsector perspective, Internet Software & Services and Software recorded the most deals, contributing 74% to total proceeds and 69% to total volume in the quarter. Continued demand for innovative software tools to expand and improve products and services for companies both within and outside the technology industry are fuelling this performance.

In the final quarter of 2013, pricing will be of critical concern. Several highly anticipated and well-known companies are expected to list, with considerably higher valuations than those observed in Q3. Considering the robust pipeline and the probable reopening of the Chinese IPO market early next year, we anticipate global technology IPOs will post strong performance in 2014.

Further information is available in the detailed report that follows and underlying data can be viewed and downloaded from our Web site at [pwc.com/globaltechipo](http://pwc.com/globaltechipo).

If you would like to discuss these findings and how they may impact your business, please reach out to me or any member of our global technology team listed in the back of this document.

Sincerely,

A handwritten signature in black ink that reads "Raman". The signature is written in a cursive style and is underlined with a horizontal line.

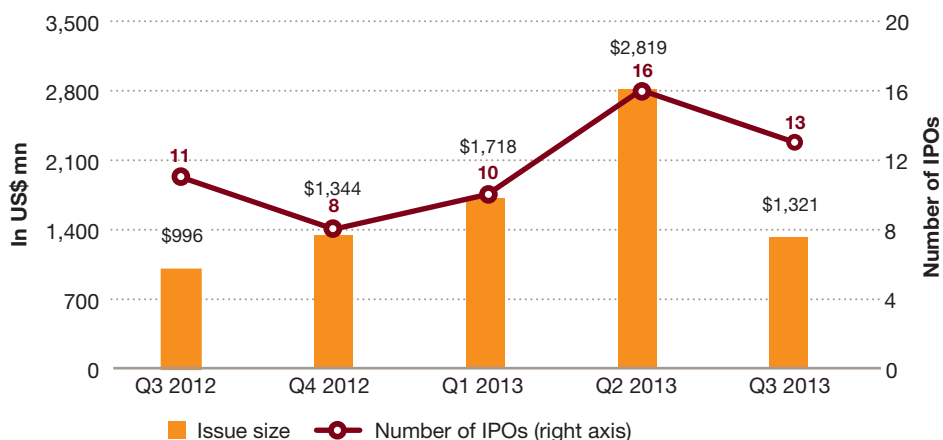
“Following the seasonal summer lull in July and August, the Global Technology IPO market rebounded strongly in September. The fourth quarter has started on a positive note, with September momentum continuing in October.”

– Raman Chitkara  
Global Technology  
Industry Leader, PwC

### Global technology IPO trends

There were 13 global technology IPOs\* in Q3 with total proceeds of US\$1.3bn, an 18% increase in volume and 33% increase in dollars over Q3 2012. Growth in the first half of 2013 was fuelled by investors’ increased appetite for risk, supported by a rising equity market. However, the continued absence of IPOs in the Chinese market, coupled with the liquidity crunch faced by the broader global market, led to reduced activity in Q3. Consistent with historical patterns, the number of global technology IPOs decreased quarter over quarter, declining 19% in volume and 53% in issue size. With 20 publicly announced registrations of technology companies in the US, and additional confidential filings under the rules of the US JOBS Act, the IPO pipeline is strong and suggests an uptick in activity in Q4.

Figure 1: Global technology IPO trends



Source: Dealogic with analysis by PwC.

\*Issue size greater than US\$40mn

## Top 10 technology deals

Internet Software & Services and Software companies dominated the top 10 technology deals in Q3 2013, comprising 74% of total proceeds. On-demand access to the technology tools that have become integral to our business and personal lives continues to drive the need for innovative software products and services.

Due largely to the absence of IPOs in China, the US market easily outperformed all others, with nine out of the top 10 technology IPOs.

Historically one of China's strongest IPO subsectors, the semiconductor subsector has been significantly impacted by the IPO restrictions set by the Chinese Security and Regulatory Commission (CSRC). Should the Chinese markets remain closed, we may see more China-based companies going public on US exchanges. Montage Technology, a Chinese semiconductor company, raised US\$71mn on the NASDAQ exchange in Q3.

Figure 2: IPO summary – Top 10 deals

Company	Subsector	Issue size (in US\$ mn)	Primary exchange
FireEye, Inc.	Software	304	NASDAQ
Violin Memory, Inc.	Computer Storage & Peripherals	162	NYSE
Benefitfocus, Inc.	Internet Software & Services	131	NASDAQ
Cvent, Inc.	Internet Software & Services	118	NYSE
Rocket Fuel, Inc.	Internet Software & Services	116	NASDAQ
Ringcentral, Inc.	Internet Software & Services	98	NYSE
Montage Technology Group Ltd.	Semiconductors	71	NASDAQ
Control4 Corp.	Electronic Computer Manufacturing	64	NASDAQ
Covisint Corp.	Internet Software & Services	64	NASDAQ
Sinosoft Technology Group Ltd.	Software	56	Hong Kong

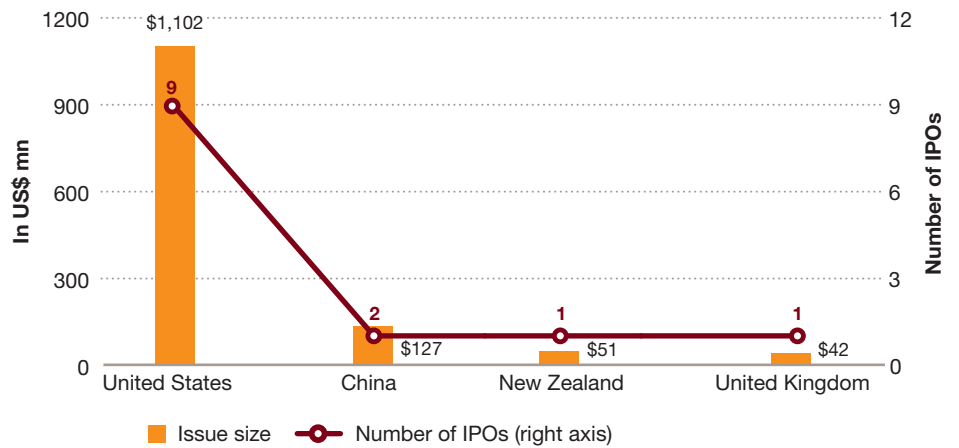
Source: Dealogic with analysis by PwC.

## Geographic IPO trends

In Q3 2013, US companies led technology IPOs with 69% of total deal volume and nine out of thirteen IPOs. US companies also led proceeds, raising US\$1.1bn or 83% of total dollars. FireEye, Inc. posted the largest deal value of US\$303.5mn. Non-US companies' total deal value was US\$220mn. Amongst them, Montage Technology Group Ltd. in China, which listed on NASDAQ, was the largest, raising US \$71mn.

Although equity markets fluctuated during the quarter, investor confidence has been on the rise as evidenced by the fall in the VIX (Volatility Index), which marks a positive sentiment for the IPO market. Large-deal-value IPOs (US\$40mn and above) have lagged the higher volume of small-deal-value IPOs.

Figure 3: Geographic distribution



Source: Dealogic with analysis by PwC.

## United States

In the third quarter, the number (9) and value (US\$1.1bn) of US IPOs increased year over year by 29% and 41% respectively, but decreased 25% and 49% respectively compared to Q2 2013. In addition, the US contributed 83% to the US\$1.3bn total proceeds raised in Q3. Continuation of the Federal stimulus has ensured continued robust market growth for US equities and has helped to maintain a healthy IPO market.

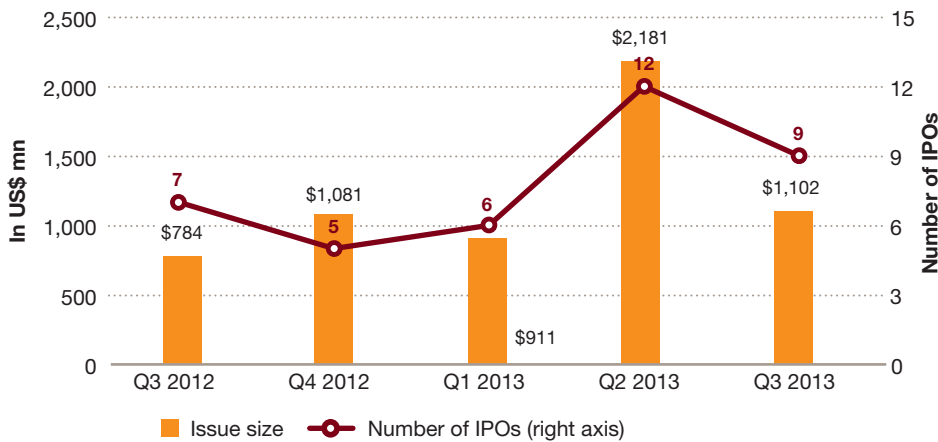
For the first nine months in 2013, the US technology sector stands in second place behind healthcare for greatest number of IPOs.<sup>1</sup>

Though in the current quarter the numbers of companies raising capital of US\$40mn and above have declined, there are several near-term technology IPOs of US\$500mn–\$1bn in the pipeline.

*“Technology companies that have planned and prepared effectively to navigate the challenges of public markets are entering the fourth quarter with the wind at their backs. The strong IPO momentum coming out of the third quarter is primarily powered by the software sector, which continues to reign supreme both in terms of technology venture funding and technology IPOs. In a volatile market, IPO investors welcome enterprises that deliver growth and predictability, and software, particularly SaaS models, have the ability to deliver on that value proposition.”*

**– Bryan McLaughlin**  
Deals Partner, PwC US

Figure 4: United States



Source: Dealogic with analysis by PwC.

<sup>1</sup><http://www.pwc.com/us/en/press-releases/2013/q3-2013-ipo-watch-press-release.jhtml>

“After the absence of Chinese IPOs in the first half of 2013, China’s technology market started to demonstrate its strong pipeline with two IPOs in Q3 2013 and a number of publicly announced registrations are expected to materialise in the next six months. The temporary shutdown of the Chinese capital market continues to drive Chinese companies to explore overseas exchanges for accessing capital markets.”

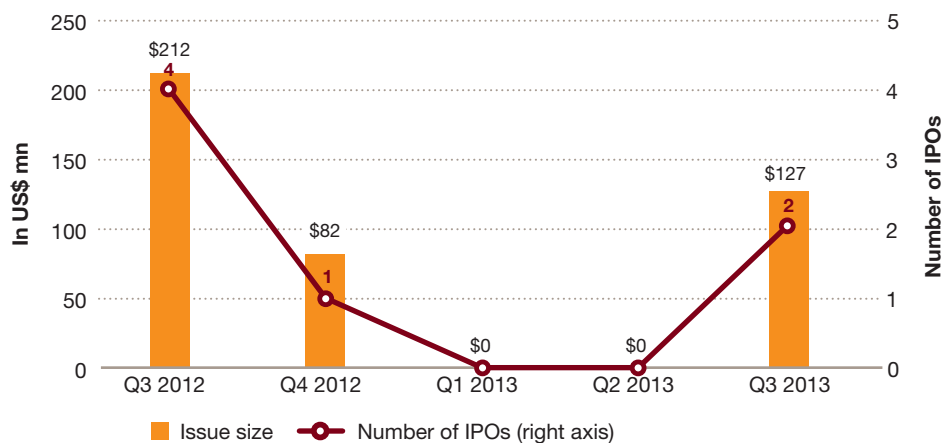
– Jianbin Gao  
Technology Industry  
Leader, PwC China

## China

After the long absence of Chinese company IPOs in Q1 and Q2 2013 due to restrictions imposed by the CSRC, two Chinese companies, Montage Technology Group Ltd. and Sinosoft Technology Group Ltd., listed their IPOs on NASDAQ and Hong Kong exchanges respectively this quarter. This is a decline of 50% in volume compared to Q3 2012 when four Chinese companies went public. Montage Technology Group Ltd. is a fabless provider of analog and mixed-signal semiconductor solutions catering to the home entertainment and cloud computing markets. Sinosoft Technology Group Ltd. is an advanced provider of application software products and solutions in the People’s Republic of China with a focus in Jiangsu.

In China, investors are anxious for the Chinese IPO market to re-open. However, with new regulations intended to crack down on fraud and protect investors, the CSRC plan to restrict share issuers and major shareholders from selling their stock below the IPO price could dampen interest.

Figure 5: China



Source: Dealogic with analysis by PwC.

## All other geographies

In Q3 2013, New Zealand and the UK each posted one technology IPO. The corresponding quarter in 2012 recorded no IPOs from exchanges other than US NASDAQ and NYSE, and China's Shenzhen. Sequentially, value declined by 85% in total issue size to US\$93mn and volume decreased 50%.

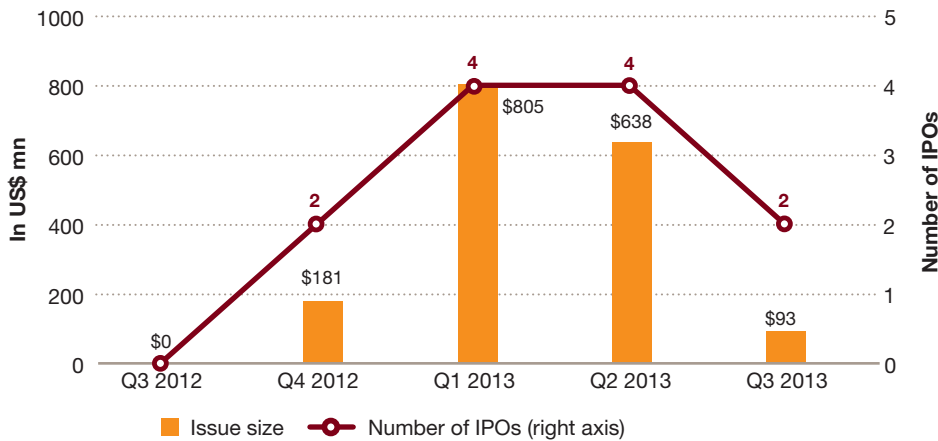
IPOs in the United Kingdom are currently on an upswing, driven by improving confidence in the economy. However, this quarter only one technology IPO of US\$41.6mn was issued by Keywords International Ltd, an IT Consulting & Services company.

Though few European technology IPOs have occurred in 2013, other sectors have bounced back. Companies that had postponed their IPOs due to poor market conditions are returning. It is anticipated that private equity backed companies, which dominated Q3 IPO activity in Europe, will continue to drive activity in Q4.

*“The UK Tech market continues to demonstrate its strength in innovation and talent. Together these continue to drive growth in the market and achieving an IPO is much more realistic, albeit, it is only one way shareholders are considering realising value, driving growth or increasing brand awareness. Overall, I believe the IPO market is getting stronger as more great ideas become reality.”*

– Jass Sarai  
Technology Industry  
Leader, PwC UK

Figure 6: All other geographies



Source: Dealogic with analysis by PwC.



## Stock exchange distribution

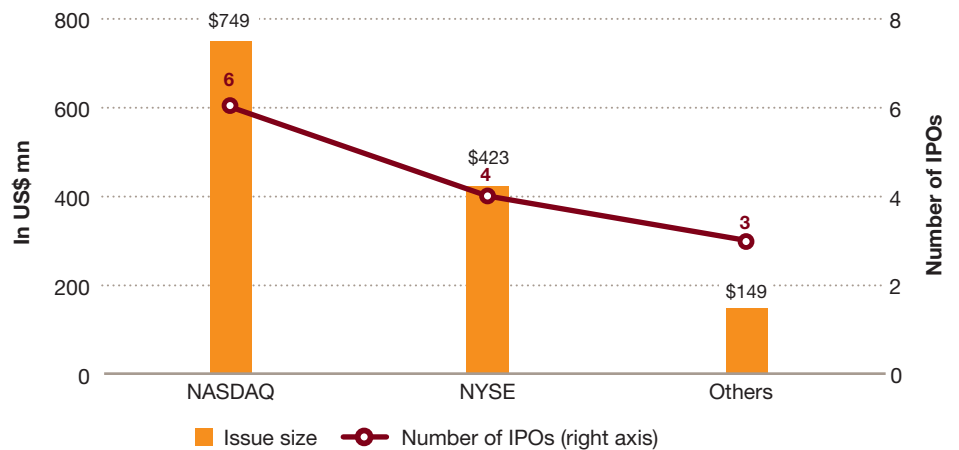
Momentum continued on the US exchanges which posted 10 of the 13 technology IPOs during Q3 2013. However, investors' apprehension over the performance of larger IPOs in the current market led to a decline in IPO deal size. In the current quarter, there was only one company raising more than US\$200mn, as compared to four in the last quarter.

Both NASDAQ and NYSE witnessed increases in the number of technology IPOs as compared to the same quarter last year with 20% and 100% gains, respectively. Total proceeds also rose, with NASDAQ posting US\$749mn (78% increase) and NYSE recording US\$423mn (17% gain) over Q3 2012. Quarter over quarter, NASDAQ witnessed a 50% increase in the number of technology IPOs, while NYSE declined 60%.

The ongoing shutdown of new listings in the Chinese capital markets, coupled with weaker economic conditions in most of Asia, suppressed technology IPOs on Asian exchanges. In Asia, Hong Kong and New Zealand witnessed one technology IPO each, raising US\$56.1mn and US\$51.2mn, respectively.

Nonetheless, given the strong pipeline of US technology IPOs, and the probable reopening of the Chinese IPO market, the global technology IPO market should post strong performance in Q4 2013.

Figure 7: Stock exchange distribution



Source: Dealogic with analysis by PwC.

**Figure 8: Region – North America (NASDAQ, NYSE)\***

Issue date (mm/dd/yyyy)	Company	Subsector	Proceeds (in US\$ mn)	Primary exchange	Domicile nation
09/26/2013	Violin Memory, Inc.	Computer Storage & Peripherals	\$162.0	NYSE	United States
09/26/2013	Ringcentral, Inc.	Internet Software & Services	\$97.5	NYSE	United States
09/26/2013	Covisint Corp.	Internet Software & Services	\$64.0	NASDAQ	United States
09/25/2013	Montage Technology Group Ltd.	Semiconductors	\$71.0	NASDAQ	China
09/19/2013	FireEye, Inc.	Software	\$303.5	NASDAQ	United States
09/19/2013	Rocket Fuel, Inc.	Internet Software & Services	\$116.0	NASDAQ	United States
09/17/2013	Benefitfocus, Inc.	Internet Software & Services	\$130.8	NASDAQ	United States
08/08/2013	Cvent, Inc.	Internet Software & Services	\$117.6	NYSE	United States
08/06/2013	YuMe, Inc.	Internet Software & Services	\$46.1	NYSE	United States
08/01/2013	Control4 Corp.	Electronic Computer Manufacturing	\$64.0	NASDAQ	United States

Source: Dealogic with analysis by PwC.

\* Deals have been classified based on the exchange where capital was raised.

## Subsectors distribution

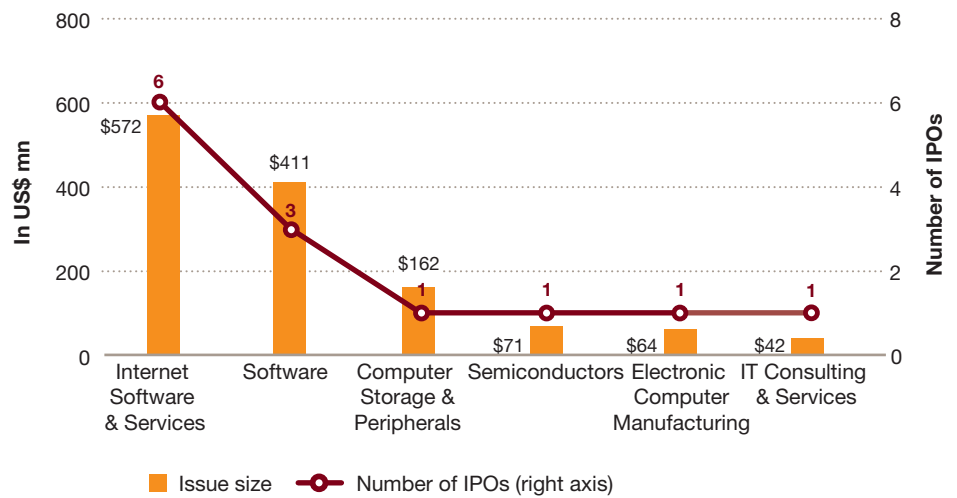
The Internet Software & Services subsector contributed 46% to the total deals and 43% to the total proceeds this quarter. It witnessed six IPOs, raising US\$572mn this quarter compared to two IPOs raising US\$193mn a year ago, a significant increase, and was only down slightly from Q2 2013, when five IPOs raised US\$606mn. Average deal size for the subsector was US\$95mn, with Benefitfocus, Inc. being the highest, raising US\$131mn and YuMe, Inc. being the lowest, with US\$46mn.

After leading technology IPOs for the last two quarters, the Software subsector declined to three IPOs from six in Q2 2013. This quarter was also a decline from Q3 2012 when software recorded five IPOs. Total proceeds declined by 42% to US\$411mn as compared to US\$708mn last quarter and US\$360mn in Q3 2012. However, software witnessed the largest IPO in Q3 2013, with FireEye, Inc. raising US\$303.5mn.

Computer Storage & Peripherals witnessed the second highest deal value of US\$162mn from Violin Memory, Inc. This was a slight decline compared to last quarter when the subsector posted the top two IPOs in terms of proceeds.

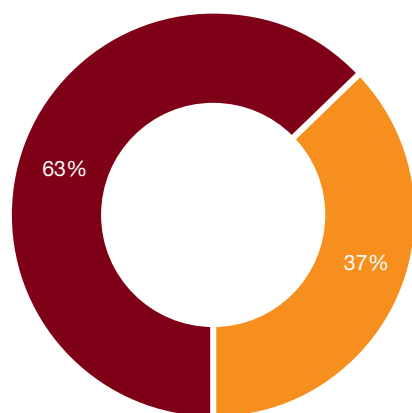
As noted earlier, the semiconductor sector recorded one IPO, Montage Technology Group Ltd., with US\$71mn in proceeds. Over the last nine months, semiconductors witnessed only two IPOs as compared to 15 during the same period last year.

Figure 9: Sector distribution



Source: Dealogic with analysis by PwC.

**Figure 10: Net income status in Q3 2013 technology IPO universe (12)**



- Positive LTM net income
- Negative LTM net income

Source: Dealogic with analysis by PwC.

## Key financials

We have considered the financials of 12 out of the 13 IPO companies.\*

The average Last Twelve Months (LTM) revenue for all subsectors stood at US\$99mn and average LTM EBITDA at a negative US\$15mn. The biggest contributor to the average LTM revenue was Rocket Fuel, Inc. from the Internet Software & Services subsector, with LTM revenue of US\$159.6mn.

Average LTM revenue for 12 companies in Q3 2013 was down by 90% compared to average LTM revenue of US\$986mn in Q2 2013, which had 16 technology IPOs. Average LTM revenue for Computer Storage & Peripherals was US\$95mn in Q3 compared to US\$5.4bn in Q2. This was the cause of the major drop in total LTM average for all subsectors.

In the second quarter, CDW Corporation from Computer Storage & Peripherals recorded LTM revenue of US\$10bn with an IPO issue of US\$395mn whereas in Q3 the highest issue size was US\$304mn by FireEye Inc. with revenue of only US\$115mn.

One other subsector contributed to the drop in average LTM revenue. IT Consulting & Services recorded average LTM revenue of US\$21mn in Q3 compared to US\$315mn in Q2 2013.

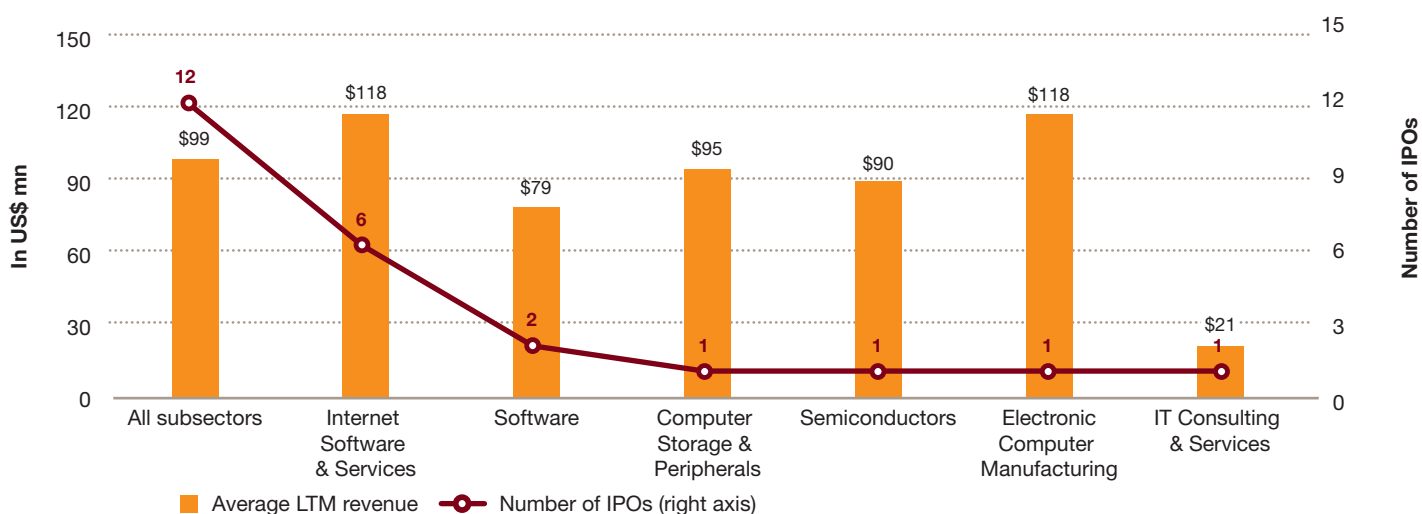
Internet Software & Services, with six IPOs, had negative LTM EBITDA of US\$8mn. Four out of the six companies had negative LTM EBITDAs, while the two remaining companies barely stayed positive with less than a 10% LTM EBITDA margin. High and increasing sales and marketing costs contributed to the negative LTM EBITDA margins.

Out of the 12 companies whose financials have been considered during the quarter, seven reported LTM net losses and the remaining five reported LTM net income. Whilst four out of seven companies reporting to LTM net losses were from the Internet Software & Services subsector, the remaining three came from the Software, Computer Storage & Peripherals and the Electronic Computer Manufacturing subsectors.

Comments on the other subsector financials are not included because they had only one IPO this quarter.

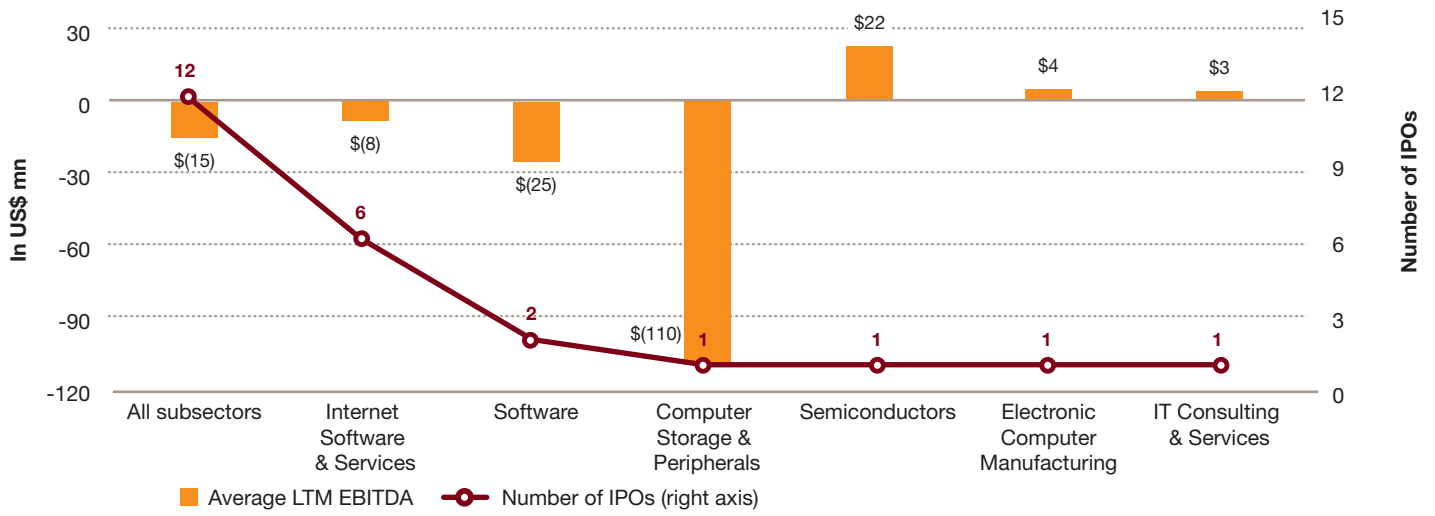
\*Detailed financial information unavailable for Wynyard Group Ltd.

**Figure 11: Key financials – LTM revenue**



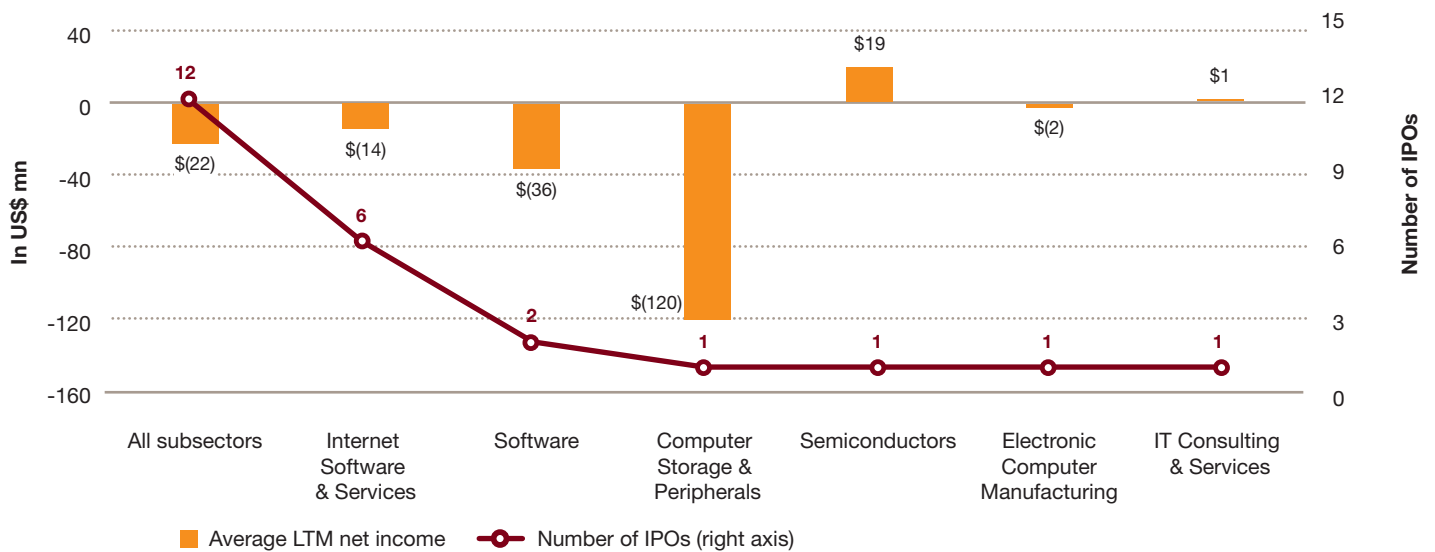
Source: Dealogic with analysis by PwC.

Figure 12: Key financials—LTM EBITDA



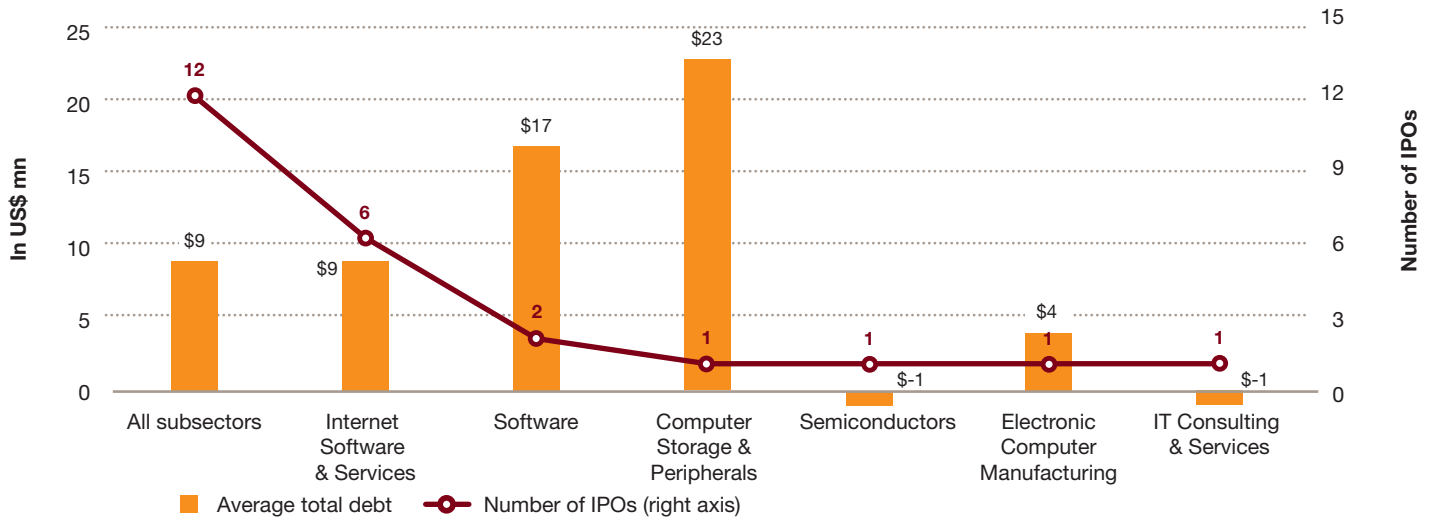
Source: Dealogic with analysis by PwC.

Figure 13: Key financials — LTM net income



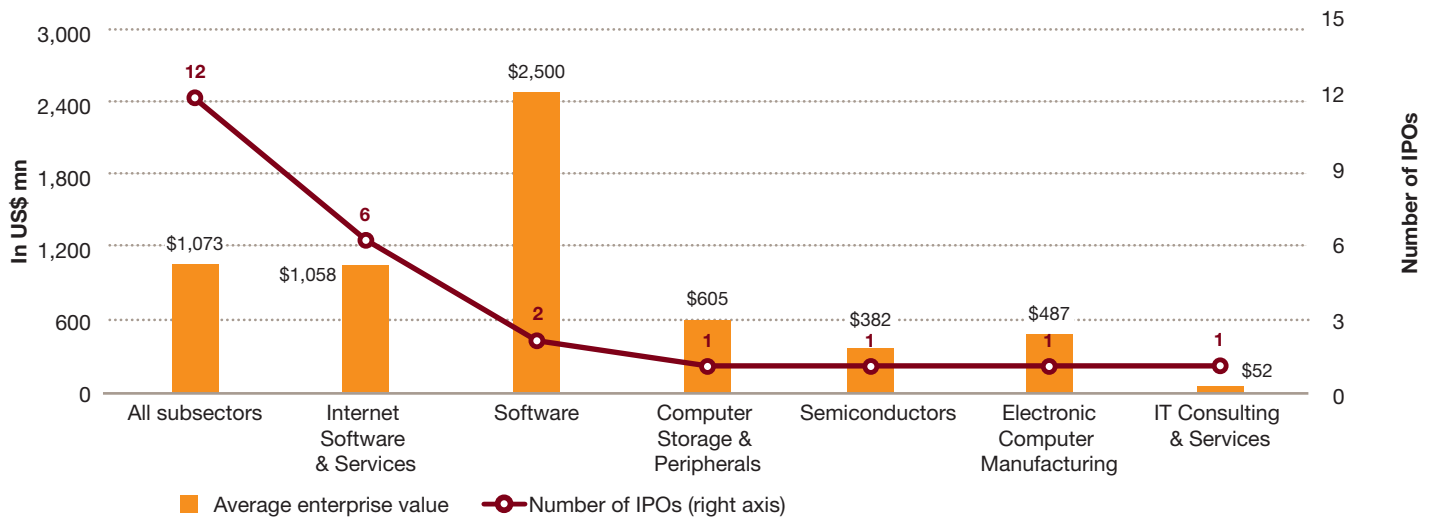
Source: Dealogic with analysis by PwC.

Figure 14: Key financials – Total debt



Source: Dealogic with analysis by PwC.

Figure 15: Key financials – Enterprise value



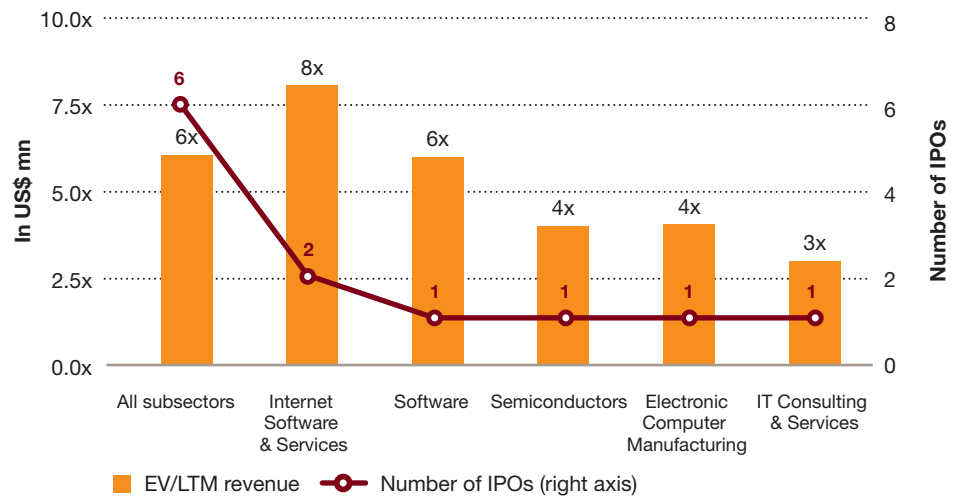
Source: Dealogic with analysis by PwC.

## IPO deals: Valuation metrics

The average EV/LTM revenue and EV/LTM EBITDA multiple for all subsectors stood at 6x and 63x, respectively in the current quarter. Cvent, Inc. from Internet Software & Services subsector was the outperformer during the quarter, with EV/LTM revenue of 14x and EV/LTM EBITDA of 174x.

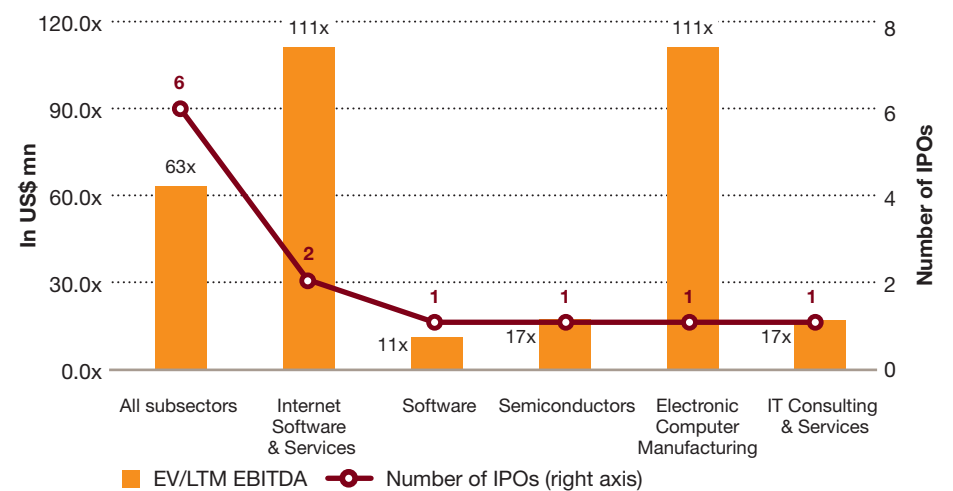
Internet Software & Services witnessed the highest EV/LTM revenue and EV/LTM EBITDA multiples of 8x and 111x respectively, primarily due to the high trading multiples of Cvent, Inc.

Figure 16: IPO deals: EV/LTM revenue



Source: Dealogic with analysis by PwC.

Figure 17: IPO deals: EV/LTM EBITDA



Source: Dealogic with analysis by PwC.

Note: The companies with negative EBITDA were ignored when calculating the valuation metrics of all subsectors and individual subsectors.

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# Methodology

The Global Technology IPO Review for Q3 2013 is based on PwC's analysis of transaction data extracted from Dealogic. The analysis considers IPOs across all countries worldwide from 1 July 2013 to 30 September 2013. Financial data was also obtained from Dealogic.

The definition of the Technology sector is based on the Dealogic database industry classifications and includes the following subsectors:

- Internet Software & Services
- IT Consulting & Services
- Professional Services (e.g., Application Software, Software Solutions)
- Semiconductors
- Software
- Computer Storage & Peripherals
  - Computer, Computer Peripheral Equipment
  - Computer Storage Device Manufacturing
- Electronic Computer Manufacturing
- Communications Equipment

Only IPOs with issue size greater than US\$40mn were included in the analysis.

All monetary amounts are in US dollars unless otherwise indicated.

LTM—Last twelve months



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## For more information

If you would like to discuss how these findings might impact your business or your future strategy, please reach out to any of our technology industry leaders listed below.

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### ***About PwC***

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