EY Global IPO Trends

2016 1Q

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Transaction picture shifting amid uncertainty and volatility

The global transactions market is changing. While global IPOs have got off to an extremely slow start, M&A activity is more active, private capital looks set for a busy year ahead and options being trialed by companies as part of new multitrack strategies are proliferating. There has perhaps never been such an interesting or challenging time to generate value.

Global IPO activity slowed significantly in 1Q16 with a total of 167 deals raising just US$12.1b. This represents a 39% drop in volume and a 70% decline in total capital raised compared with the same period last year and is by far the weakest first quarter since 2009. It should be noted that historically, IPO activity in first quarters tends to be the least active quarter each year. To some extent, the decline in activity in 1Q16 can be attributed to a "cooling off" effect after several years of strong IPO activity across major markets. However, fears of a global economic slowdown, perceptions of high market valuations due to ultra-loose monetary policy and the current volatility in capital market conditions have all contributed to the muted start to the year.

Notably, weakness in activity was evident across all major regions, unlike recent quarters when softness in some markets was mitigated by higher activity in other geographies. In the US, for example, there were only 10 IPOs in 1Q16, all from the health care sector. Technology, usually one of the mainstays of US IPO activity, was absent as silicon valley companies are delaying their IPOs and awaiting better timing and improved sentiment on their existing, significantly higher valuations. Investors have also been holding their portfolios, rather than raise capital in down rounds. In fact, dry powder from investors in the Americas region was around US$276b at the end of 2015. IPO activity in 1Q16 was also weak on Asia-Pacific and EMEIA exchanges compared to 1Q15.

In the short-term, global IPO activity is likely to continue to be impacted by concerns regarding the global economic slowdown, falling oil prices and turbulent equity markets. However, once these sources of volatility stabilize, the outlook should be a lot more positive, supported by healthy pipelines of IPO-ready companies in many key regions and across many sectors.

Predictions for the global IPO market based on activity in 1Q16

Uncertainty will weigh on investor sentiment
Heightened economic and political uncertainty has helped undermine IPO sentiment at the start of 2016. The slowdown in growth in the Chinese economy, which expanded at its slowest rate in 25 years in 2015, has increased fears of a global slowdown, contributing to a drop in commodity prices, particularly oil. Lower oil prices, in turn, have helped undermine stock market sentiment, prompting lower and more volatile equity prices in many markets.

At the same time, political risks and uncertainty are rising in many regions. In Europe, the refugee crisis and the forthcoming EU referendum in the UK are raising questions about the political cohesion of the Eurozone. Across the Atlantic, the looming US presidential election is clouding the outlook for both economic and foreign policy. Further uncertainty surrounds the future course of monetary policy in many markets. The Federal Reserve is expected to increase interest rates this year, and while the ECB is still following an accommodative path, there are growing concerns that its negative interest rate policy is creating the potential for a renewed crisis in the European banking system.

M&A will remain attractive compared with volatile public markets
The IPO market is more sensitive to volatility and general negative economic sentiment than the M&A market. Companies preparing for a public listing can be vulnerable to adverse external events and changes in sentiment close to their listing date, which may require them to accept a lower pricing range, or even a postponement of the IPO. Whereas M&A activity is less tied to specific dates, less publicly exposed, more flexible and has proved more resilient to equity market turbulence. Despite a softening on 2015's stellar performance, M&A activity is currently faring better than the IPO market with less steep declines. For 2016 year-to-date (as of 16 March), global M&A activity fell 63% by deal value compared to 4Q15, whereas global IPO activity fell 82% by deal value. By deal number, global M&A activity in 1Q16 fell 16% while global IPO activity fell by 52%.

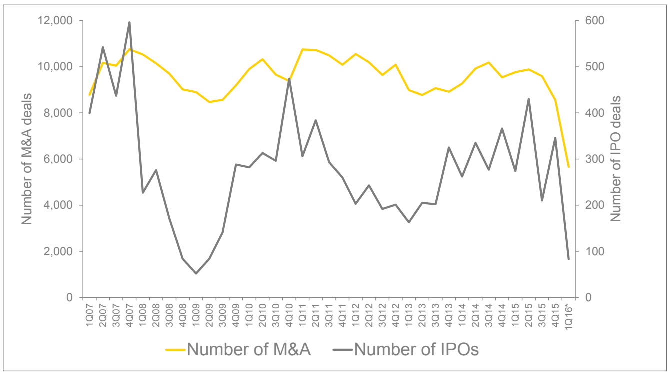
IPO sentiment radar

Our radar contains a variety of market factors that may impact investor sentiment for IPOs. Pre-IPO companies should be aware of how these factors may affect their business and ultimately the timing and value of their transaction.

Potential impact

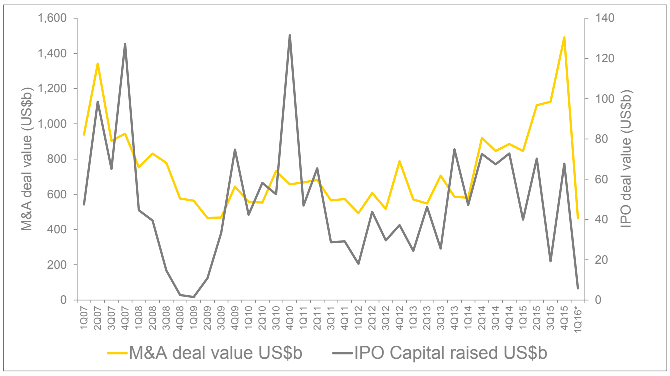
- Prepare for more narrow IPO windows
- Preserve optionality with early IPO readiness preparations
- Consider array of exit alternatives
- Need for flexibility in timing and pricing

Global IPO and M&A by deal numbers



Note: 1Q16 M&A activity is based on announced M&A deals from January and February 2016, and 1Q16 IPO activity is based on priced IPOs from January and February 2016.

Global IPO and M&A by deal value



Note: 1Q16 M&A activity is based on announced M&A deals from January and February 2016, and 1Q16 IPO activity is based on priced IPOs from January and February 2016.

Reduced IPO and M&A activity also reflect the continuing rise in importance of alternative financing and companies' pursuit of multitrack capital raising strategies as they look to keep their strategic fundraising options open. Pursuing a multitrack strategy is an increasingly important trend that will gain in strength as companies weigh private funding options against trade sale, merger, acquisition or traditional IPO as alternative options to fund growth and deliver return for shareholders.

New and alternative placement techniques will grow in popularity

In addition to lower pricing and postponement, increasing volatility and declining equity markets can often prompt companies to reduce the size of their IPO. Selling a smaller free float reduces the dilution of the existing owners at lower valuations, which is one probable explanation for the predominance of IPOs with smaller deal size in the first quarter of 2016.

Crossover funding, which is often used in the health care sector, may also be leading to the delay in IPO activity in 1Q16. With the crossover approach, companies seek to attract cornerstone financing from a selected group of lead investors. Once that capital has been secured, the company then issues its prospectus and embarks on a traditional road show – in part to attract additional finance, but also to bolster its brand presence.

In a similar fashion, but usually closer to the intended IPO road show, some companies seek to get the agreement of key institutional investors to invest in the forthcoming listing. This strategy is akin to a private placement, but under the auspices of a public listing. In both cases, companies are seeking to mitigate the impact of volatile market conditions by attracting investment or intentions to invest ahead of time, which can be used to bolster confidence in the IPO and ascertain the size of their IPO proceeds.

Darkest before dawn

With the US, traditionally a leading indicator for global IPO and M&A activity, recording such a weak quarter, it is perhaps understandable that the investment mood remains fragile. However, there are reasons to expect that the forthcoming quarters will show an improvement in activity.

From an economic perspective, the Federal Reserve is now expected to moderate its interest rate hikes, while the ECB has announced on 10 March that it will provide additional stimulus to support economic growth. China has eased monetary policy with a further cut in reserve requirement ratios and is likely to react to lower growth expectations with further supportive measures. The Chinese authorities are also formulating specific measures to support the IPO market, including a compensation regime, which aims to prevent IPO fraud. Similarly, Japan also implemented an accommodative monetary policy, including Bank of Japan's introduction of negative interest rates at the end of January, which are expected to re-energize the Japanese economy and stimulate IPO activity in the mid to long term.

The future path of oil prices is hard to predict, but recent signs of stability, albeit at lower levels, should bolster investor sentiment. In turn, the lower absolute level of energy prices should bolster consumer spending.

The year will improve

Overall, while potential risks abound and investors face a highly uncertain outlook, the IPO pipeline remains healthy in the number of regions, and signs of stabilization in the economic and political backdrop are likely to prompt an increase in activity in the coming quarters.

Global IPO and Strategic Transaction Leaders
Strategic Growth Markets, EY

Global IPO highlights

1Q16 YTD
(January-March 2016)[1]

Volume and value

167
deals globally
(39% decrease on 1Q15 YTD)

US$12.1b
in capital raised
(70% decrease on 1Q15 YTD)

Commentary

While global IPOs have got off to an extremely slow start, M&A activity is more active, private capital looks set for a busy year ahead and options being trialed by companies as part of multitrack strategies are proliferating. In the current climate, both IPO-ready companies and potential investors are in effect sheltering from volatile, gloomy weather outside and waiting for the outlook to improve. While potential risks abound and investors face a highly uncertain outlook, the IPO pipeline remains healthy in a number of regions and signs of stabilization in the economic and political backdrop are likely to prompt an increase in activity in the coming quarters.

EY Global IPO snd Strategic Transaction Leaders

Rapid growth vs. developed

Rapid-growth markets represent 53% of global IPO volume in 1Q16 YTD.

Financial sponsor activity fell compared to previous years

PE and VC account for 6% of global IPOs (10 deals)

17% by proceeds (US$2.0b)

Three sectors trending

Health care	Technology	Industrials
29 deals	29 deals	24 deals
(US$1.4b)	(US$0.9b)	(US$1.5b)

Equity markets saw greater volatility in 1Q16

VIX

The VIX® was 20% to 28% in January and first half of February, signaling high volatility and lower investor confidence.

There were 35 withdrawn or postponed deals in 1Q16, which was lower than the 39 deals in 1Q15.

Volatile equity markets has affected 1Q16 IPO activity. The VIX has fallen steadily since mid-February, which may bode well for 2Q16 IPO activity.

96% of 1Q16 IPOs priced within or above expectations.[2]

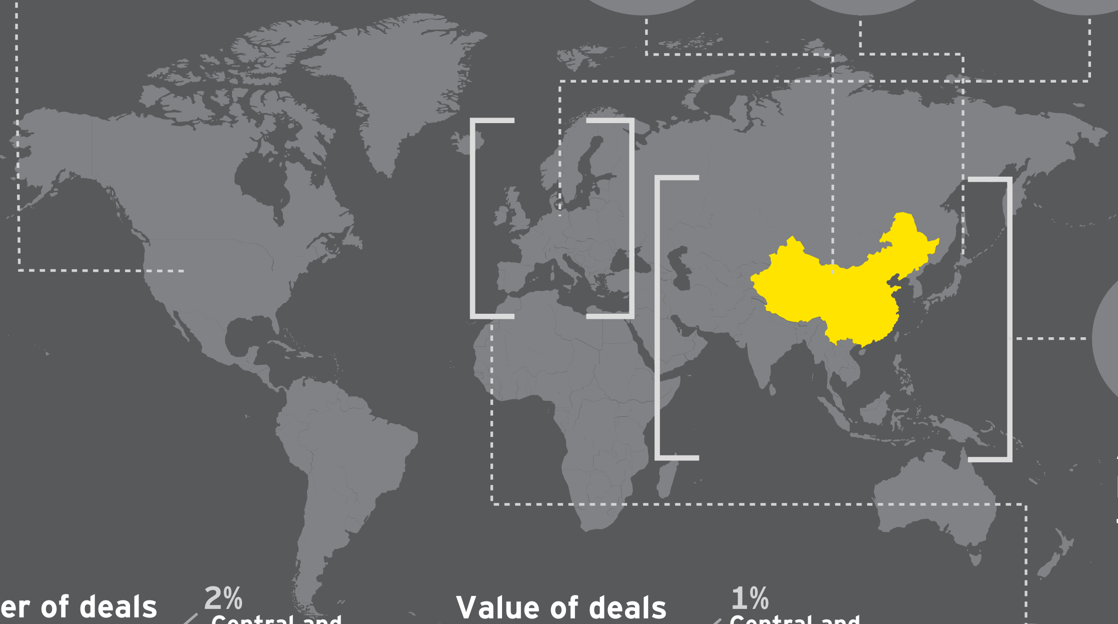
Asia-Pacific tops the leaderboard

US 6%

US exchanges ranked third by global funds raised.

Top three deals in 1Q16

China	Japan	UK
US$2.0b	US$872m	US$613m
China Zheshang Bank Co., Ltd.	LaSalle Logiport REIT	Metro Bank plc



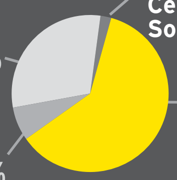
Asia-Pacific 54%

Asia-Pacific led by global funds raised.

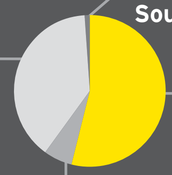
Europe 35%

European exchanges ranked second by global funds raised.

Number of deals



Value of deals

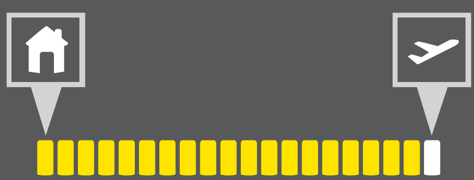


Top six exchanges by funds raised

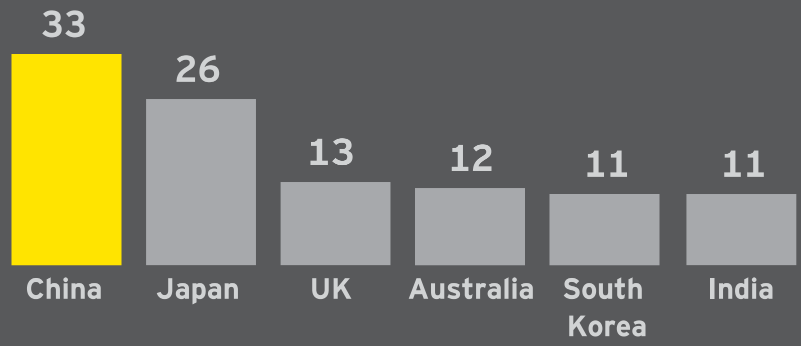
HKEx	LSE	TSE	SZSE	NASDAQ OMX	SSE
Main and GEM	Main and AIM	Tokyo[3]	Main and ChiNext	NASDAQ OMX	Shanghai
US$2.9b	US$2.7b	US$1.2b	US$1.0b	US$891m	US$791m
(15 deals)	(16 deals)	(25 deals)	(14 deals)	(7 deals)	(9 deals)

Home and away

Cross-border listings were 7% of global IPOs during 1Q16 as compared to 9% during 1Q15.



Top six countries by deal volume[4]



1. 1Q16 YTD (January–March 2016) IPO activity is based on priced IPOs as of 11 March and expected IPOs by end of March.
2. Focus on open-price IPOs with deal value above US$50m.
3. Tokyo Stock Exchange include IPOs from the Main Board, MOTHERS and JASDAQ.
4. Based on the listed company domicile nation.

Cautious optimism for US IPO activity

Amidst the high investor uncertainty caused by significant oil price fluctuations and exceptional levels of market volatility, it is little surprise that IPO activity in the US was distinctly muted in 1Q16. At US$753m raised via 10 IPO listings, total deal number and capital raised were lower even than in 1Q09 – the aftermath of the global financial crisis. Although the first quarter is traditionally the quietest of the season, first quarter results have trailed.

- Traditionally a mainstay of US IPO activity, technology stocks were notable by their absence in 1Q16, delaying their IPOs for better timing and sentiment on their existing significantly higher valuations. Seven of the past ten technology companies to go public are trading below their offer price, and four are down by at least 20%.[5]
- The US accounted for one of the top 20 IPOs globally by capital raised. The NASDAQ was ranked seventh of the most active exchanges for IPO activity in 1Q16 by number of deals and capital raised.
- Although the number of financial sponsor-backed IPO deals has declined in line with the overall global trend, financial sponsors remained key players, accounting for 40% of IPO deals and 58% by capital raised.

Multitrack is becoming more multifaceted

While the US IPO market is stalled, US M&A activity has continued at a fairly steady pace with 1,865 deals worth US$200.9b (7% decline by deal number and 8% lower by deal value compared to 1Q15). This would seem to suggest companies are choosing this as a more secure route to generate value away from the glare of publicity and the risk of unexpected economic or market shocks that can so easily derail or devalue a public listing.

PE and VC investors in the private markets also have capital to deploy, with dry powder levels running at US$276b in the Americas region. There is no doubt that there is plenty of capital available for the right transaction.

Against this backdrop, we note the emergence of cross-over funding pioneered by US health care businesses raising significant sums privately before turning to the public markets for a final push, designed to generate value via enhanced brand recognition as well as further direct fundraising. According to CB Insights there were 92 so-called "private IPOs" in 2015[6], more than in the four previous years combined. This private fundraising has given some companies the financial flexibility to defer the timing of their IPO until a more favorable point in the IPO window.

In parallel we note the emergence of more smaller IPOs as investors and their management teams resist dilution at low valuations while boosting brand identity.

Rest of the year looks more positive for IPOs

Despite the slow start to the year, the outlook remains positive for 2016. The US economy is improving as seen by a strong jobs market and rising house prices, the S&P 500 is recovering and the Chicago Board Options Exchange® (CBOE) Volatility Index® (VIX®) has moved back below the 20% level after rising above that level for most of January and February. We are hopeful that follow-on activity, which has been in steady decline since 1Q15 and is now at its lowest point by deal numbers since 1Q07, will also recover somewhat in 2Q16, indicating growing investor confidence in equities.

With volatility reducing there is no shortage of buying interest, with strategic investors continuing to see opportunities based on improving economic fundamentals. While this reasoning is sound, there has been some pressure on valuations. Three of the five IPOs (60%) that have started trading by 11 March (admittedly a small cohort of deals in the US) were priced within or above initial filing range in 1Q16. In a world where positive returns are becoming more scarce, newly listed stocks remain a source of value and US IPOs did not disappoint producing average first-day returns of 6.8% over the quarter.

There is a healthy pipeline of IPO-ready companies ready to come to market when windows open. The timing of their IPO could depend on valuation levels on the public market. For technology businesses that have already witnessed a meteoric valuation rise in the private market, an IPO may now be the only viable path to deliver the higher value that their investors are looking for and an exit would deliver.

With the US market showing positive signs at the end of the first quarter, companies across a range of sectors continue to prepare for the IPO transaction, but in our estimation such preparations are likely to be part of a multitrack value generation strategy.

[5] Stock price information for technology companies come from data provider FactSet and Dealogic, as of 11 March.
[6] http://www.forbes.com/sites/steveschaefer/2015/12/29/ipo-class-2016-unicorns-uber-airbnb-soulcycle/#42d930106c21

US IPO highlights

1Q16 YTD

(January-March 2016)[7]

Volume and value

10 deals
(71% decrease on 1Q15 YTD)

US$753m
in capital raised
(88% decrease on 1Q15 YTD)

Key trends

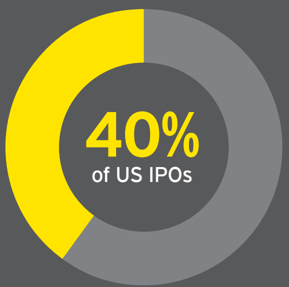
- Absent any significant geopolitical or economic shocks, IPO volume will rebuild through 2Q16 as the US economy strengthens, volatility levels settle and oil price levels steady.
- The prospect of the US presidential election may dampen activity as we move into the third quarter.
- Health care and consumer-facing sectors will continue to feature in the IPO landscape as investors seek a combination of growth and value generation.

Commentary

"With increased volatility in the markets and the uncertainty surrounding oil prices, interest rates and US elections, we expected a stop-start year for IPO activities. Despite a slower-than-usual start in the first quarter, we're seeing signs that the IPO window will finally open. The pipeline of offerings ready to price is building up and IPOs are dramatically outperforming the S&P 500 this quarter. As the markets recover and confidence steadies, we are optimistic that IPO levels will start to trend closer to historic norms."

Jackie Kelley
EY Americas IPO Leader

Financial sponsors drive US IPO market



PE and VC account for 40% of US IPOs (4 deals)

58% by proceeds (US$436m)

All 10 IPOs in 1Q16 are from health care

Pharmaceuticals
6 deals
(US$314m)

Biotechnology
4 deals
(US$439m)

IPO pricing and performance[8]

+6.8% first-day average return

+27.2% increase in offer price vs. 11 March 2016

US$448.0m median post-IPO market cap

Equity indices[9]

DJIA	-2.2% ▼
S&P 500	-2.0% ▼
VIX®	-4.6% ▼

IPO activity

	NYSE	NASDAQ
1Q16 YTD	1 deal (US$20m)	9 deals (US$733m)
1Q15 YTD	14 deals (US$4.1b)	21 deals (US$2.1b)

7. 1Q16 YTD (January-March 2016) IPO activity is based on priced IPOs as of 11 March and expected IPOs by end of March.
8. Pricing and performance is based on 5 IPOs on NYSE and NASDAQ that have started trading by 11 March. Data as of 11 March.
9. Year-to-date returns of equity indices as of 11 March.

Cross-border activity in 1Q16 from

China **1 deal** (US$182m)
Hong Kong **1 deal** (US$115m)
Israel **1 deal** (US$14m)

US

New registrations

1Q16	20 deals, US$1.8b
1Q15	47 deals, US$6.3b

Asia-Pacific sluggish, but gaining momentum

Asia-Pacific saw more IPO activity in 1Q16 than any other region, with 102 deals raising US$6.6b. However, this still marked significant declines on 1Q15 for the region, with a 31% decline in deal number and 55% fall in capital raised. While follow-on activity, which has held steady in recent quarters, dropped sharply in 1Q16 to its lowest point since the start of the financial crisis in 2007, investor sentiment remains mixed across the region, which is driving varying levels of IPO activity in different markets.

- Japan, Hong Kong, Australia and Mainland China exchanges were among the top five most active exchanges by number of IPOs.
- Hong Kong, Japan and Mainland China exchanges topped the global stock exchange global leaderboard by capital raised.
- IPO activity on ASEAN exchanges remains especially subdued.

Japan remains on course for another bumper year
Japan exchanges continued their strong 2015 performance, recording 25 IPOs raising US$1.2b in 1Q16 with their best first-quarter results since 2008. In fact, in 1Q16, Japan's Main Board, MOTHER and JASDAQ together were among the most active stock exchanges by deal number and capital raised. In February, the TSE hosted the world's second largest IPO this year to date, the LaSalle Logiport Real Estate Investment Trust (REIT) listing, which raised US$871m. However, the consumer products and services sector and the technology sector were the most active by deal numbers in 1Q16, supported by the recovery in consumption.

Investor sentiment has remained broadly solid, despite the fact that the Nikkei Stock Average has been trending downward since December and there were no withdrawn and postponed IPO deals in 1Q16. It is too early to tell what impact the decision by the Bank of Japan to introduce negative interest rates at end of January will have on the stock market, valuation of the yen and the overall economy. We are hopeful that over the mid to long term, it will serve to re-energize the Japanese economy and act as a stimulus to IPO growth.

Venture capital-backed exits continue to be a significant driver of IPO activity in the coming months. In terms of overall IPO activity, Japanese exchanges saw 96 IPOs, which raised US$15.7b in 2015, and we expect IPO activity to reach a similar level in 2016.

Australia sees most IPOs in 1Q16
Despite the fact that the first quarter is traditionally quiet for IPOs, activity in 1Q16 was relatively steady. There were 14 IPOs raising US$103m, compared to 11 IPOs and US$306m in the same quarter a year ago. Australian Securities Exchange was ranked fourth on the global stock exchange leaderboard by deal volume this quarter.

Technology continues to be the most active sector with a number of pre-revenue businesses seeking access to funding via a public listing. Other active sectors by deal numbers are financials, consumer staples and health care.

A number of companies looking to go public have held back as investor sentiment has been negatively impacted by volatility in global equities markets, particularly in China, as well as the mixed signals on global GDP growth and fluctuating commodity prices.

Financial sponsor-backed exits remain a cornerstone of the Australian IPO market but are coming under pressure as investors and their advisers follow a dual-track process to maximize opportunity and value. We expect this trend to continue for the rest of the year.

Lull in ASEAN as exchanges introduce reforms
Activity in 1Q16 on ASEAN exchanges continued the slow pace of recent quarters with investors maintaining a "wait and see" stance. Lower oil and commodity prices, the strength of the US dollar and economic volatility caused by concerns about global economic growth have dampened confidence and investor sentiment.

There were four IPOs on Singapore Catalist in 1Q16, which raised US$34m altogether. There were three IPOs each on Bursa Malaysia and Indonesia Stock Exchange, which raised US$120m and US$10m respectively. There was also one IPO listing on Vietnam's Ho Chi Minh Stock Exchange, which raised US$41m. Those companies that have completed an IPO are mainly small- and medium-sized businesses that are easier to price and bring to market. The larger companies are delaying their IPO transactions due to depressed pricing and tepid investor demand, and are waiting for the IPO window to reopen. Currently, the bond market is more active as investors look for safer bets with steady yields.

However, measures are being put in place to support the IPO market in some countries within the ASEAN region. The Indonesia Stock Exchange (IDX) has set up incubators in Jakarta and Bali to nurture SMEs and start-ups and support them in accessing funds through venture capital or an IPO. Meanwhile, the Stock Exchange of Thailand (SET) launched a new digital listing service in January to reduce the administrative burden on issuers, enhance operational effectiveness and increase its international competitiveness. These measures may point to a pickup in IPO activity in those markets in the medium term.

Asia-Pacific IPO highlights

1Q16 YTD

(January-March 2016)[10]

Volume and value

102 deals

(31% decrease on 1Q15 YTD)

US$6.6b

in capital raised

(55% decrease on 1Q15 YTD)

Key trends

IPO markets

- IPO volume fell in first quarter but Asia-Pacific remains the top region on the global IPO leaderboard for 1Q16.
- Japan, China, South Korea and Australia will see more companies coming to market in the next few quarters.
- While the outlook for the other markets within the region is one of cautious optimism, the pipeline continues to build.

Commentary

"First quarter results have shown that IPO activity in Asia-Pacific is not immune to concerns over global growth, equity market volatility or fluctuating commodity prices. The good news is that while a slowdown is evident, the region is still the world's most active in terms of new listings and the prospects for a swift rebound are positive. We expect an uptick in IPOs later in the year as investor sentiment strengthens and those companies waiting in the pipeline decide the time is right to come to the public markets."

Ringo Choi
EY Asia-Pacific IPO Leader

Top five exchanges by funds raised

HKEx	TSE	SZSE	SSE	KRX
Main and GEM	Tokyo[11]	Shenzhen[12]	Shanghai	Main and KOSDAQ
US$2.9b	US$1.2b	US$952m	US$791m	US$461m
(15 deals)	(25 deals)	(14 deals)	(9 deals)	(12 deals)

Six sectors trending

Industrials	Technology	Consumer products	Materials	Health care	Financials
18 deals	18 deals	15 deals	12 deals	9 deals	8 deals
(US$705m)	(US$299m)	(US$522m)	(US$394m)	(US$397m)	(US$2.1b)

IPO pricing and performance[13]

+22.5% first-day average return

+62.7% increase in offer price vs. 11 March 2016

US$91.4m median post-IPO market cap

Equity indices[14]

HANG SENG	-7.7% ▼
SHANGHAI COMP	-21.3% ▼
NIKKEI 225	-11.0% ▼
FTSE STRAITS TIMES	-2.0% ▼
ASX 200	-2.9% ▼

Cross-border IPOs

Greater China issuers saw 2 deals on NASDAQ and one each on KOSDAQ and Australian Securities Exchange.

Malaysia issuer had 1 deal that raised US$5m on Singapore Catalist.

Australian Securities Exchange saw 2 deals, 1 from Ireland that raised US$44m and 1 from China worth US$11m.

10. 1Q16 activity is based on priced IPOs as of 11 March 2016 and expected IPOs by end of March.
11. Tokyo Stock Exchange include IPO listings from the Main Board, MOTHERS and JASDAQ.
12. Shenzhen Stock Exchange includes IPO listings from the Main Board, SME Board and ChiNext.
13. Pricing and performance is based on 61 IPOs of Asia-Pacific exchanges that have started trading by 11 March. Data as of 11 March.
14. Year-to-date returns of equity indices as of 11 March.

Greater China sees Q1 slowdown but outlook upbeat

IPO activity in Greater China saw a slow start to the year with 38 new listings raising US$4.6b in 1Q16 representing declines of 61% by deal number and 56% by capital raised respectively on the same period in 2015. While investment sentiment in Hong Kong remains fragile, investor appetite for IPOs in Mainland China has held up as the supply of new listings remains carefully controlled by the regulator. Confidence will be further strengthened by the recent release of the Government's latest five-year plan.

- Greater China exchanges accounted for 2 of the largest 10 IPOs worldwide by proceeds in the first quarter, while they attributed 9 of the top 20 largest IPOs. This consists of two deals on Hong Kong Main Market, three IPOs on Shanghai Stock Exchange and two IPOs on Shenzhen Stock Exchange.
- By capital raised, Hong Kong Main Board and Growth Enterprise Market (GEM) led global exchanges, while Shenzhen Stock Exchange ranked fourth and Shanghai Stock Exchange ranked sixth in 1Q16.
- By deal number, Hong Kong Main Board and GEM ranked third, while Shenzhen Stock Exchange ranked fifth and Shanghai Stock Exchange ranked eighth respectively.
- All IPOs on Mainland China exchanges in 1Q16 rose by the maximum permitted (44%) on the first day of trading.

Hong Kong activity marked by investor caution

After a record year in 2015, IPO activity on Hong Kong Main Market dipped in the first quarter of 2016 with 11 IPOs raising US$2.9b, down from 16 deals with proceeds of US$2.5b in 1Q15.

Investors are cautious due to a number of factors including concerns over capital outflows caused by currency depreciation and uncertainty over economic growth, both globally and locally. Less favorable market conditions and recent increase in volatility has seen the Hang Seng Index fall by 7% since the start of the year as of 11 March. Of those companies that have come to market in the first quarter, just two listed in its upper pricing range, compared to 32% in 1Q15.

Those deals that have come to market in 1Q16 have been predominantly small- and medium-sized IPOs. Average proceeds rose to US$262m from US$158m in the same period last year. The biggest IPO in Hong Kong so far this year is the US$2.0b listing of China Zheshang Bank Co. Ltd., which is expected to be completed by the end of March.

However, in terms of sectors, the financials and real estate sectors led the way by capital raised in 1Q16 and are likely to be active in IPO activity in the coming months. This flows from the decision by the Mainland China Government to issue a slew of favorable policies to stimulate the economy and property market amid a slowing economy. Policies have included a cut in the reserve requirement ratio (RRR) and destocking supply-side reform, which will continue to benefit the sectors.

Regulator in Mainland China maintains tight control

Mainland China exchanges saw 23 IPOs raising US$1.7b in the first quarter of the year, compared to US$7.9b in proceeds through 70 deals in 1Q15. Globally, Shenzhen Stock Exchange ranked fifth by deal number and fourth by capital raised while Shanghai Stock Exchange ranked eighth by deal number and sixth by capital raised.

The China Securities Regulatory Commission (CSRC) is seeking to carefully control the number of IPOs, slowing down the pace of new listings in light of recent high market volatility. However, despite volatility and regulatory interventions, demand for new equity issuance remains high with all IPOs so far this year recording the maximum permitted gains in first-day trading. In addition, under the new listing rules, investors are no longer required to pre-pay during the subscription period, which is stimulating demand for the new shares.

Industrials and consumer staples sectors were the top sectors in 1Q16 on Mainland China exchanges both in terms of IPO proceeds and number of deals, driven in part by guidance issued last November by the State Council that was designed to accelerate the development of these sectors and their policies to fuel economic growth.

Outlook optimistic for the remainder of the year

We expect IPO activity on the Hong Kong Stock Exchange to be steady rather than spectacular in the coming months. The pipeline continues to be very strong – more than 40 companies have completed a public filing and anecdotal evidence suggests a good number of companies are also preparing to do so moving forward. Although we may see a slight drop in deal volume, those companies that come to market will have a more compelling equity story and will likely include some sizeable IPOs from the financials sector.

Although a new IPO registration system for Mainland China was approved by the State Council in November, implementation of the changes will take time and will be launched only when market conditions and the legal environment are appropriate. In the meantime, there are currently more than 700 companies in the CSRC pre-IPO list, but the regulator will continue to carefully control the pace at which they are listed. As a result of the long waiting list for A-share listings and uncertainty about the reform of the IPO system, pre-IPO companies will continue to consider the Hong Kong Stock Exchange as their listing destination.

More broadly, recent plenary meetings of the country's top legislative and consultative bodies have set out the country's next five-year plan and introduced measures to steady the economy, which will have a positive impact on investor confidence.

Greater China IPO highlights

1Q16 YTD

(January-March 2016)[15]

Volume and value

Hong Kong Main Market
11 deals
(31% decrease on 1Q15 YTD)

Shanghai
9 deals
(74% decrease on 1Q15 YTD)

Shenzhen
14 deals[16]
(60% decrease on 1Q15 YTD)

Hong Kong Main Market
US$2.9b
(13% increase on 1Q15 YTD)

Shanghai
US$791m
(85% decrease on 1Q15 YTD)

Shenzhen
US$952m[16]
(61% decrease on 1Q15 YTD)

Key trends

- Mainland China's regulator continues to maintain careful control over the flow of new IPOs in response to ongoing market volatility.
- Investor appetite for shares in companies that go public continues to be strong – generating strong first-day returns on Greater China exchanges.
- The pipeline of IPO-ready companies is healthy – a steady flow of IPOs is expected once the market stabilizes.

Commentary

"The IPO market in Greater China has had a slow start to the year after a record 2015, mainly due to market volatility and lower investor sentiment, driven by concerns over RMB depreciation and the slowdown in economic growth. Despite the challenges ahead, the market has stabilized and is gathering momentum for a recovery. The announcement of the Government's latest five-year plan, including measures to boost consumption-led growth, will also help to bolster investor confidence."

Terence Ho
EY Greater China Strategic Growth Markets and IPO Leader

Six sectors trending

Industrials	10 deals	(US$588m)
Technology	7 deals	(US$140m)
Materials	4 deals	(US$173m)
Consumer products	3 deals	(US$426m)
Consumer staples	3 deals	(US$288m)
Health care	3 deals	(US$246m)

IPO pricing and performance[17]

Hong Kong Main Market

+4.9% first-day average return

+13.3% increase in offer price vs. 11 March 2016

US$165.2m median post-IPO market cap

Shanghai and Shenzhen

+41.5% first-day average return

+127.1% increase in offer price vs. 11 March 2016

US$276.2m median post-IPO market cap

Equity indices[18]

HANG SENG	-7.7% ▼
SHANGHAI COMP	-21.3% ▼
SHENZHEN COMP	-28.3% ▼

Mainland China's IPO pipeline

Around 750
companies are in the China Securities Regulatory Commission (CSRC) pipeline.

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

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

CSRC IPO pipeline

15. 1Q16 YTD (January-March 2016) IPO activity is based on priced IPOs as of 11 March and expected IPOs by end of March.
16. Shenzhen Stock exchange includes IPO listings from the Main Board, SME Board and ChiNext.
17. Pricing and performance is based on 9 IPOs on Hong Kong Main Market and 14 IPOs on Shanghai and Shenzhen Stock Exchanges that have started trading by 11 March. Data as of 11 March.
18. Year-to-date returns of equity indices as of 11 March.

EMEIA sees cautious start to 2016

In line with the global slowdown, IPO activity on EMEIA exchanges got off to a sluggish start to the year as markets showed caution in the face of high volatility and concern about the global economic recovery. This led to the lowest quarterly number of listings since the first quarter of 2009, and the lowest quarterly capital raised since the third quarter of 2012. It should be noted that IPO activity in first quarters each year is usually slower due to companies waiting for the end of the reporting season before completing their IPO listings.

Against this backdrop, the region continues to perform well globally, with greater proceeds and deal volume, but lagging behind Asia-Pacific.

- In 1Q16, EMEIA saw 51 IPOs, raising a total of US$4.7b in proceeds. IPO activity declined by 43% by deal volume and 76% by proceeds compared to 1Q15, and 47% by volume and 81% by proceeds compared to 4Q15.
- Within the region, London Main Market and AIM led IPO activity. Other active exchanges include Bombay Main Market and the SME Platform with eight IPOs, while NASDAQ OMX Main Market and junior market First North saw seven IPO listings.
- EMEIA exchanges hosted six of the top ten IPO listings by proceeds, five of which were on the London Stock Exchange, while the NASDAQ OMX Main Market hosted one deal.

Global uncertainty offsets domestic strength

Domestic fundamentals in the Eurozone remain encouraging, with employment and real incomes rising, low financing costs and fiscal policy providing favorable stimuli. The European Central Bank (ECB) remains committed to doing everything necessary to encourage spending, and on 10 March, the ECB introduced a new package of measures including further quantitative easing (QE), further interest rate cuts and incentives to banks to increase lending. In a mixed response, the euro slumped and then surged on the news as analysts interpreted the measures as a recalibration of the ECB's policy tools, putting more weight into reinforcing the Eurozone's economy and less into weakening the currency.

Irrespective of the government policies being implemented by individual governments to stimulate their economies, nothing can change the fact that part of the Eurozone's difficulties stem from the volatility and uncertainty present in global markets. With many export-driven economies, Europe finds itself particularly sensitive to global fluctuations. Persistently low oil prices, concerns about China's economy and a possible US recession all act to dampen investor sentiment. This can be seen reflected in a high gold price, as cautious investors flock to gold as a safe haven from market volatility.

UK, India and Sweden lead the region

Against a backdrop of slower IPO activity and high equity market volatility, the London Main Market and AIM with 16 IPOs, Bombay Main Market and SME Platform with 8 IPOs and the Stockholm market of NASDAQ OMX and First North with 7 IPOs were quite active. The Indian market in particular is seeing a pickup in activity due to positive sentiment on growth, SOE divestment plans of the government and a robust pipeline built up over the past six years.

In line with the global trend, deal size of IPOs on EMEIA exchanges remains small. Median deal size on the main markets was US$63m in 1Q16, compared to US$96m in 1Q15. Moreover, 28 of the 51 IPOs were listed on the junior markets, while 35 of the 51 IPOs had IPO proceeds of less than US$50m.

The exception to this comes from the UK, which delivered a relatively strong performance by deal number and funds raised. London Main Market and AIM saw 16 IPOs, which raised US$2.7b, accounting for 22% of global proceeds and 10% by global deal numbers. This exchange ranked second by deal number and deal value among global stock exchanges.

Political concerns dampen sentiment

A raft of geopolitical uncertainty continues to reduce investor sentiment across EMEIA. Europe is currently facing its largest migrant crisis since World War II, fueling political and economic unrest across the region. Uncertainty around the UK's EU referendum also appears to be impacting investor sentiment.

Middle East and North Africa (MENA) exchanges remain affected by sectarian conflicts, and persistently low oil prices threaten to bring new economic challenges to many countries in the region.

Better outlook for 2Q16 and 2H16

European IPO activity should pick up from 2Q16 onward with steady economic recovery and continued monetary easing following the measures announced on 10 March. The pipeline is also promising, with good diversification across sectors and exchanges. Planned privatization of companies by indebted governments is also likely to boost the IPO deal volume in this region; however, sentiment in the region remains fragile, and new shocks could easily impact markets and slow down growth.

IPO activity in MENA is likely to be constrained in 2016, while weaker oil prices put pressure on public finances and dampen investor sentiment. Some progress is being made on this front with recent discussions, initiated by Russia, having a positive impact on the oil price. However, it is unclear whether Iran is going to take part in this agreement, which is critical for any positive long-term impact.

IPOs in India are set to hit a six-year high in 2016 as the companies looking to go public, supported by a growing appetite for equities and an uptick in economic growth, are estimated to raise more than US$5b.

IPO activity in Africa is expected to surge as companies across various sectors are preparing to go public and regulators are looking to integrate capital markets within this region. Egypt is expected to lead IPO activity in this region, due to its Government's plan to privatize state owned enterprises in order to improve public sector finances and strengthen capital markets.

EMEIA IPO highlights

1Q16 YTD

(January–March 2016)[19]

Volume and value

Main markets:
23 deals
(57% decrease on 1Q15 YTD)

Junior markets:
28 deals
(24% decrease on 1Q15 YTD)

Main markets:
proceeds US$4.1b
(78% decrease on 1Q15 YTD)

Junior markets:
proceeds US$537m
(17% increase on 1Q15 YTD)

Key trends

Investor confidence

- Technology led by deal number, attributing to 22% of IPOs while health care continues to be a key sector for the region, accounting for 20% of deals in 1Q16.
- Financial sponsors remain an important driver of IPOs in EMEIA, accounting for 14% of deals and 34% of proceeds in 1Q16.
- IPOs on EMEIA main markets recorded strong results, with 80% pricing within or above their initial pricing range and averaging first-day returns of +6.4%.

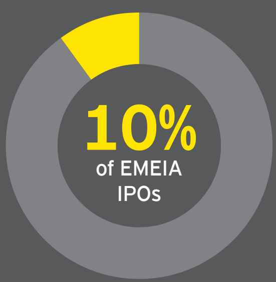
Commentary

"Despite improving economic fundamentals, EMEIA has experienced a slow start to 2016, affected by the contagion of global volatility. For many regions in EMEIA, a mix of heightened uncertainty about the world economy – especially China – affects monetary policies, oil prices and geopolitical factors. These factors are on the IPO sentiment radar and trigger even narrower windows of opportunity. Many IPO candidates follow a 'wait and see' approach, which require a high level of flexibility catching the right IPO window and transaction optionality toward other funding or exit routes. However, timing and early preparation remain key and we expect the end of the reporting season to hasten activity across the region."

Dr. Martin Steinbach
EY EMEIA IPO Leader

Top five exchanges by funds raised

LSE	NASDAQ OMX	BSE	EGX	SGBV
Main Market and AIM	NASDAQ OMX	Bombay and SME	Egyptian	Bourse D'Alger
US$2.7b	US$0.9b	US$197m	US$154m	US$58m
(16 deals)	(7 deals)	(8 deals)	(1 deal)	(1 deal)



Financial sponsor activity fell in 1Q16

PE/VC accounted for 10% of EMEIA IPOs (5 deals)

33% by proceeds (US$1.6b)

Three sectors trending

Technology
11 deals
(US$604m)

Health care
10 deals
(US$261m)

Energy
5 deals
(US$68m)

IPO pricing and performance

Main markets[20]

+4.0% first-day average return

+6.4% increase in offer price vs. 11 March 2016

US$237.3m median post-IPO market cap

Junior markets[20]

+8.4% first-day average return

+13.8% increase in offer price vs. 11 March 2016

US$7.2m median post-IPO market cap

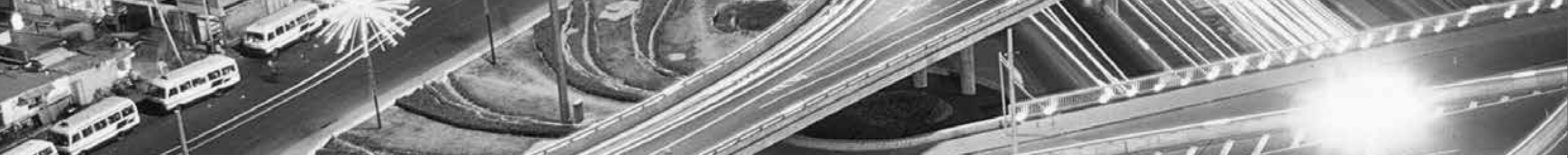
Equity indices[21]

FTSE 100	-2.1% ▼	BSE SENS	-4.8% ▼
DAX	-8.5% ▼	JSE All share	+1.8% ▲
CAC 40	-3.9% ▼	VSTOXX®	+8.7% ▲
MICEX	+6.5% ▲		

Cross-border IPOs

EMEIA issuers conducted 2 cross-border deals: 1 Malta IPO that raised US$116m on NASDAQ OMX's First North Stockholm and 1 Ireland IPO that raised US$44m on Australian Securities Exchange.

19. 1Q16 YTD (January–March 2016) IPO activity is based on priced IPOs as of 11 March and expected IPOs by end of March.
20. Pricing and performance is based on 16 IPOs on main markets and 18 IPOs on junior markets that have started trading by 11 March. Data as of 11 March.
21. Year-to-date returns of equity indices as of 11 March.



UK market resilient in challenging period

After a fruitful 4Q15, the London IPO market in the first quarter of 2016 got off to a slow start with just 16 deals generating US$2.7b. In comparison to the same quarter last year, this represents a decrease of 20% by volume and 41% by value of deals (20 IPOs raising US$4.5b) and reflects the subdued performance of the IPO market globally. While the first significant listing did not occur until February, companies that did come to market have performed well. Overall, newly listed stock on London Main Market is currently trading on average 7.5% above list price (as of 11 March), with only two out of seven companies trading below its list price.

- PE-backed IPOs made up 19% of deals by number and 56% by value on the London Main Market and AIM in 1Q16.
- The financials sector listings comprised 44% of proceeds raised while the real estate and media and entertainment sectors accounted for 17% and 16% of proceeds respectively.
- Technology sector IPOs accounted for 25% of 1Q16 IPOs while energy and financial sectors accounted of 19% and 13% by deal number respective.
- Three of the 16 IPOs on London Main Market and AIM are cross-border IPOs in 1Q16. These include two US companies (one each from consumer products and health care sector) and one Israeli technology firm.

In a subdued quarter London leads
With the global IPO market getting off to a significantly slow start in 2016, the London Main Market and AIM ranked second by both deal number and capital raised among global stock exchanges. The US$2.7b raised on the London Main Market and AIM accounts for 22% of global proceeds and 10% of global deal number this year so far, and five of the global top ten deals this quarter took place on the London Main Market. This indicates the enduring strength of the London markets even in restrained periods globally.

Despite the reduction in the number of IPOs overall, it seems to be the case that investors are prepared to analyze each stock on its merits and so the specific characteristics of individual companies appear to determine their success rather than general investor sentiment.

In London Main Market and AIM, companies in the technology, energy, financials and real estate sectors have proved to be attractive, mirroring previous quarters.

Impact of EU referendum on the IPO market
In February, the UK Government announced that a referendum on Britain's membership in the European Union will be held on 24 June, and this is having an effect on companies considering an IPO. We have seen a number of postponements, with many prospective IPO candidates delaying their plans until at least 3Q16. While the pipeline remains active and increasing, there is generally a longer outlook to 4Q16, and 1Q17 is a likely listing target date for most IPO candidates.

Although the political uncertainty created by the referendum is stalling the market, the result is unlikely to have a long-term effect on listings. Comparatively strong activity this quarter illustrates London's position as one of the main markets for IPOs in Europe. Regardless of the referendum result, the London Main Market and AIM will remain one of the major listing destinations.

Financial services and banks strong even in quiet market
The two largest IPOs so far this year where two challenger banks — Metro Bank plc, which raised US$613m, and CYBG plc (i.e., the listing of Clydesdale and Yorkshire Banking Group, which demerged from National Australian Bank (NAB)), which raised US$566m. While both companies reduced their offer price and hence size of their fund raising for their IPO, their stock saw a first-day pop of 7.5% and 6.7% respectively.

While the limited range of activity in 1Q16 doesn't allow any sector to show real dominance, these two IPO listings helped the financials sector become the most active sector by capital raised so far this year. This is indicative of the UK's strength in the financials sector, performing strongly even in a quiet market. Interestingly, in the CYBG plc transaction, 75% of the shares were distributed among the shareholders of NAB, the bank's prior owner. This meant a large volume of shares could be traded immediately.

PE remains in front
After private equity's return to dominance in 2015, in the first quarter of 2016 PE-backed companies have again eclipsed the rest of the London Market. Of the 17 listings on London Main Market and AIM this quarter, three IPOs were PE-backed (Metro Bank plc, Countryside Properties plc and Ascential plc), and yet these accounted for 56% of the total capital raised. The continued strength of PE-backed businesses is cementing their prominence on the London exchanges.

While the number of PE-backed IPOs in the coming quarters is likely to be significantly lower than the levels seen in 2015, we still expect them to be the drivers behind the majority of capital raised. The strong performance of PE-backed IPOs in 2015, and their abiding strength, is bolstering investor confidence in the markets and in these assets in particular.

Healthy pipeline despite instability
The UK economy remains robust despite uncertainties both globally and domestically that may undermine the pace of recovery. We expect the UK economy to weather these threats thanks to a strong services sector, persistent gains in household incomes and supportive monetary policy.

With commodity and oil prices likely to remain low and amidst the uncertainty provoked by the upcoming referendum, we expect fewer businesses to embark upon IPOs in 2Q16 and many may want to explore other capital-raising options. The pipeline does, however, remain active and increasing, so we anticipate a flurry of IPO activity toward the end of the year or in 1Q17. While investor confidence will be affected by global instability and local uncertainty, London Main Market and AIM have a track record of delivering for companies that can make a strong case for listing. The relative performance of IPOs in London demonstrates that well-priced companies, with a capable management team, will continue to realize value.

UK IPO highlights

1Q16 YTD

(January-March 2016)[22]

Volume and value

London Main Market
7 deals
(30% decrease on 1Q15 YTD)

London AIM
9 deals
(10% decrease on 1Q15 YTD)

London Main Market
US$2.4b
(45% decrease on 1Q15 YTD)

London AIM
US$0.3b
(82% increase on 1Q15 YTD)

Key trends

- IPO activity is likely to remain moderate in the following months before a higher level of activity toward the end of the year.
- Despite the resilience of the London exchanges, M&A will continue to attract companies concerned about volatility on global public markets.
- Financials will continue to be the most active sector by proceeds throughout 2016; recent flotations of challenger banks indicate the persistent appetite for banking stock in particular.

Commentary

"The UK has experienced a slow start to 2016, brought about largely by market volatility, concerns regarding slowing economic growth and the uncertainty created by the EU referendum. Despite this, we have seen that well-priced businesses, often backed by PE, attract investor interest and deliver strong aftermarket performance. Despite the broader political and economic backdrop, London prevails as the leading market in Europe for IPOs. This quarter, London Main Market and AIM accounted for 47% of European listings and hosted two of the top five largest IPOs globally in 2016 so far."

Scott McCubbin
EY UK and Ireland IPO Leader

Financial sponsors drive UK IPO market

PE and VC accounted for 19% of UK IPOs (3 deals)

56% of proceeds
(US$1.5b)

Three sectors trending

Technology	Energy	Financials
US$0.3b	**US$0.02b**	**US$1.2b**
(4 deals)	(3 deals)	(2 deals)

IPO pricing and performance

London Main Market[23]

+4.8% first-day average return

+7.5% increase in offer price vs. 11 March 2016

US$1,160.2m median post-IPO market cap

Alternative Investment Market[23]

+4.3% first-day average return

+6.0% increase in offer price vs. 11 March 2016

US$61.7m median post-IPO market cap

Equity indices[24]

FTSE 100	-2.1% ▼
FTSE 350	-2.7% ▼
FTSE AIM ALL SHARE	-4.5% ▼

Cross-border activity in 1Q16[25]

United States had **2 deals** raising US$213m on London AIM.

Israel had **1 deal** raising US$5m on the London Main Market.

Top three IPOs in 1Q16 by capital raised

Metro Bank plc	CYBG plc	Countryside Properties plc
raised	raised	raised
US$613m	**US$566m**	**US$440m**
(UK, Financials)	(UK, Financials)	(UK, Real estate)

22. 1Q16 YTD (January - March 2016) IPO activity is based on priced IPOs as of 11 March and expected IPOs by end of March.
23. Pricing and performance is based on 7 IPOs on London Main Market and 3 IPOs on AIM that have started trading by 11 March. Data as of 11 March.
24. Year-to-date returns of equity indices as of 11 March 2016.
25. There were only 3 cross-border IPOs on London Main and AIM in 1Q16 YTD.

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Find out more about future IPO prospects

For more information on global IPO performance by quarter and year, and how IPO markets look set to develop in 2016, visit the EY Global IPO website:

ey.com/ipo

Note: Throughout this report, 2016 January to March (1Q16 YTD) IPO activity is based on priced IPOs as of 11 March and expected IPOs by end of March. Source of data: Dealogic and EY.