

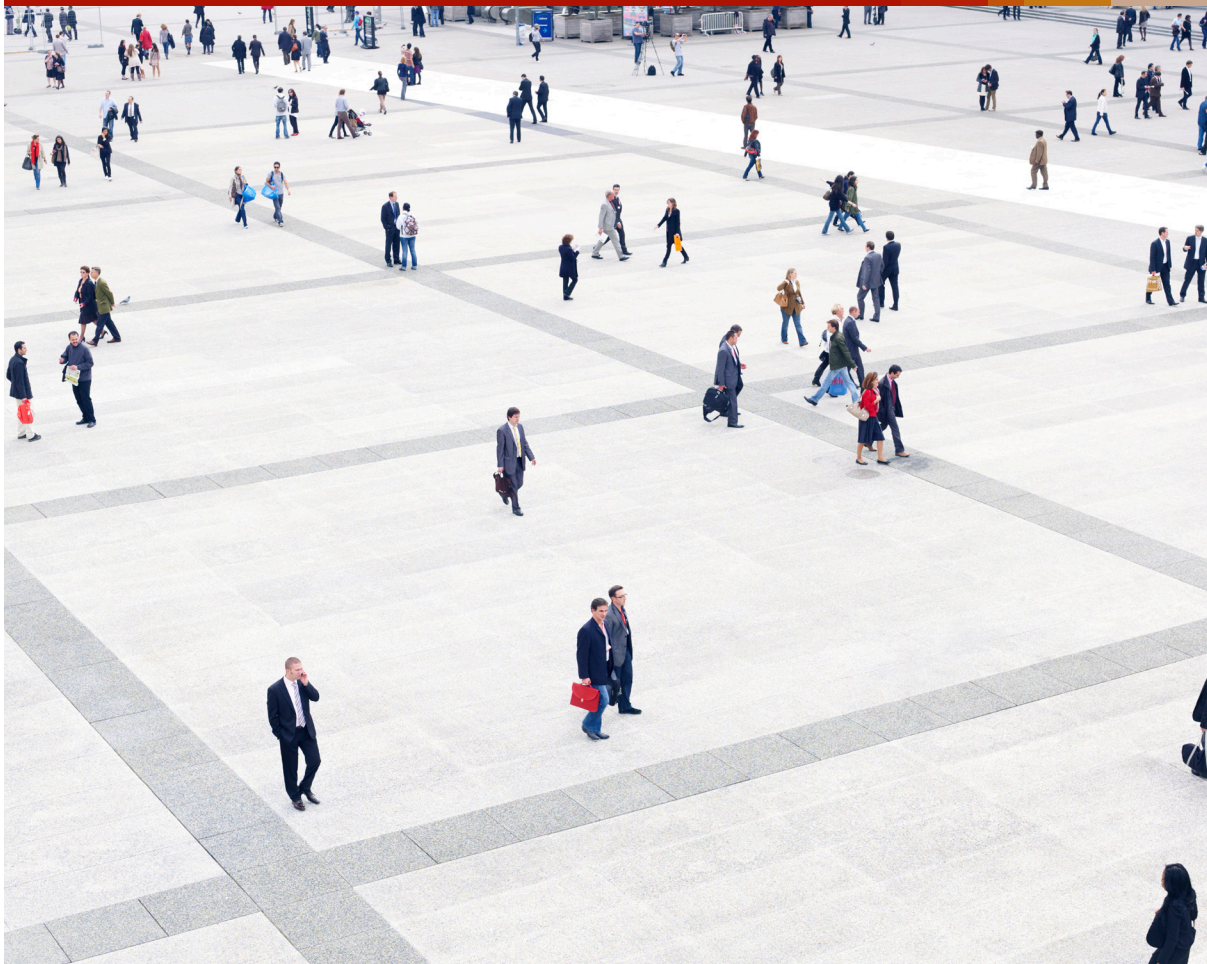
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Global Technology IPO Review Q2 2013

Technology Institute

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

August 2013



pwc

Steady improvement



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Welcome to the second quarter 2013 issue of PwC's Global Technology IPO Review. Amidst a slowly improving US economy, continued stagnation in Europe and softness in Asia, the global technology IPO market showed steady improvement with 16 IPOs raising US\$2.8bn* compared to 10 IPOs in Q1 and just US\$1.7bn in proceeds. Comparing activity to the same quarter last year, total funds raised declined 84%. However, the Q2 2012 data were skewed by the Facebook IPO of US\$16bn. Excluding Facebook, funds raised were up an impressive 59%.

Strength and momentum in the US markets, as evidenced by the Dow Jones, NASDAQ and S&P 500 indices reaching double-digit year-to-date gains as of 30 June, helped to buoy US tech IPOs. US exchanges made up 88% of the volume and 92% of total proceeds.

In contrast, China, a dominant player in the market over the last two years, for the second consecutive quarter recorded no tech IPOs. However, there is optimism that the Chinese Security and Regulatory commission will relax its posture on new filings at some point in the second half of the year. Should this come to pass, technology IPOs would likely see a significant jump in both volume and proceeds.

Increased volatility in the global equity markets pushed the major European markets lower in the second quarter. This, coupled with overall economic weakness across Europe, led to continued softness in technology IPOs, resulting in just two deals.

Looking beyond Europe, after a long hiatus, we noted an Internet Software & Services company in India completed a successful IPO on the Bombay exchange. And in North America, Canada also recorded one Internet Software & Services deal.

From a subsector perspective, it's no surprise that Software and Internet Software & Services dominated Q2 technology IPOs, making up 70% of deal volume. Demand for new software tools that enable cloud, social, mobile and data analytics can be expected to remain robust for the foreseeable future.

Though the volume of US venture capital and private equity technology investments experienced a moderate year-over-year decline in the second quarter, early-stage investments saw an uptick of three percent year over year as investor confidence continued to build around completing successful exits. On the technology M&A front, closed deals were lacklustre in the second quarter, but numerous new announcements and rumours of sizable technology transactions point to a possible strengthening M&A market in the second half of the year.

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.

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.

*Issue size greater than US\$40mn

Figure 1: IPO summary—Top 10 deals

Company	Subsector	Issue size (in US\$ mn)	Primary exchange
EVERTEC, Inc.	Computer Storage & Peripherals	505	NYSE
CDW Corporation	Computer Storage & Peripherals	395	NASDAQ
Intelsat SA	Communications Equipment	348	NYSE
Tableau Software, Inc.	Software	254	NYSE
Blackhawk Network Holdings, Inc.	Internet Software & Services	230	NASDAQ
Gogo Inc.	Communications Equipment	187	NASDAQ
Just Dial Limited	Internet Software & Services	165	Bombay
Gigamon Inc.	Software	128	NYSE
Cyan, Inc.	Software	88	NYSE
Rally Software Development Corp.	Software	84	NYSE

Source: Dealogic with analysis by PwC.

Global IPO trends

After experiencing a significant decline in the second half of 2012, the global IPO market has started showing signs of improvement. The increasing risk appetite of investors, followed by a rising equity market, led to a surge in IPO activity in Q2 2013. The number of technology IPOs and proceeds raised in the current quarter increased by 60% and 64% quarter over quarter respectively.

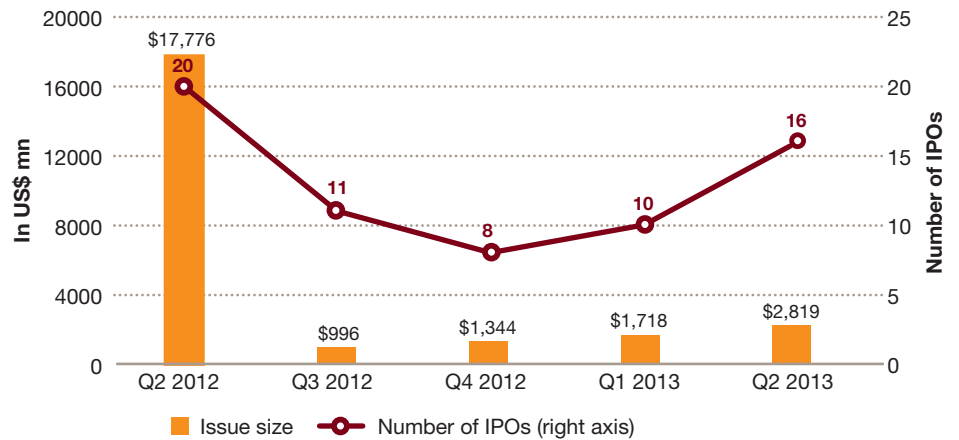
The absence of IPOs in China from the last two quarters has limited global IPO growth in 2013. Between 2010 and 2012 almost 50% of technology IPOs were from China. Without China, the US easily led in number of deals and proceeds, recording 12 technology IPOs and raising US\$2.2bn. Compared to the first quarter, the US realised a 100% increase in the number of deals, and 139% in total proceeds. Consistent with US deals, US exchanges continued to be most active, with 88% of the deals and 92% of total proceeds.

Since the Jumpstart Our Business Startups (JOBS) Act was signed into law in 2012, the number of US emerging growth companies going public with reduced public company reporting requirements has steadily risen with 11 of the 12 US IPOs this quarter filed under this new federal securities law.

“Continued strength in the US capital markets, despite signals by the Federal Reserve that stimulus efforts would begin to slow, supported reasonable valuations and solid post-offering performance for US technology IPOs. In addition, a return to early-stage investments by venture capital investors points to improving confidence in profitable exits and a robust pipeline of future technology offerings.”

– **Tom Archer**
*Technology Leader,
 PwC US*

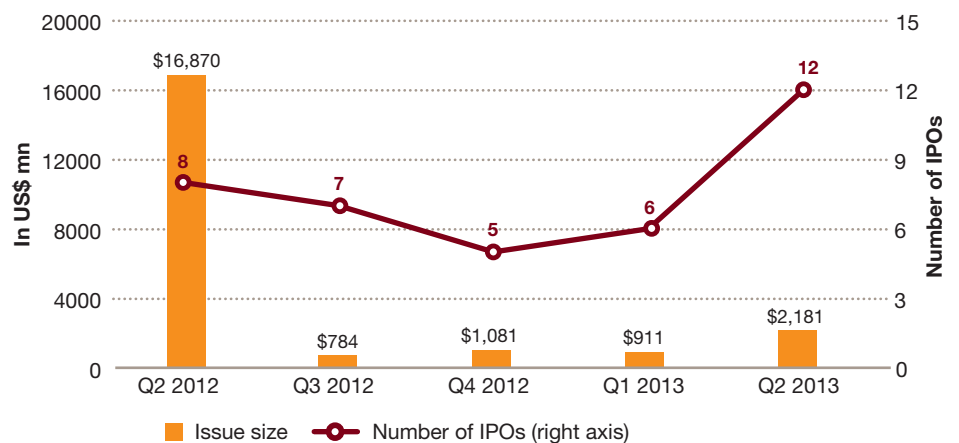
Figure 2: Global IPO trends



Source: Dealogic with analysis by PwC.

Geographic IPO trends

Figure 3: United States

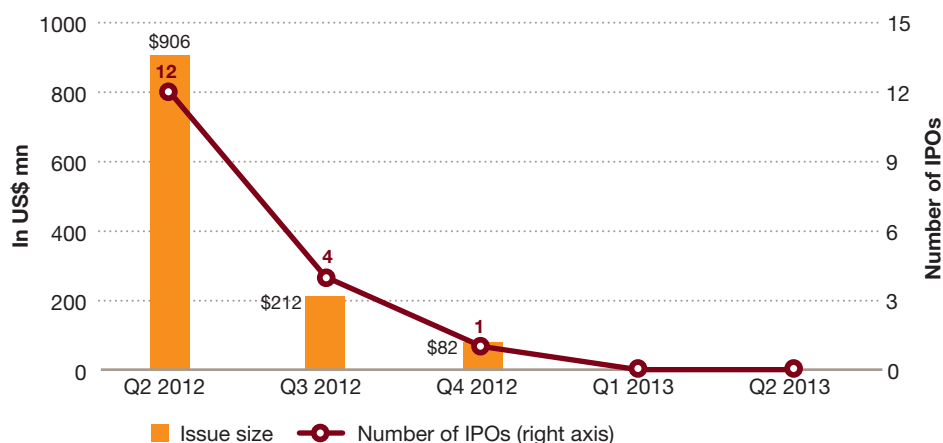


Source: Dealogic with analysis by PwC.

“The temporary shut down of the Chinese capital markets, coupled with the disappointing post-offering performance of several technology stocks, have driven the technology IPO market in China to a historical low. However, there continues to be a growing number of sizable M&A deals in the China technology space as venture capital investors pursue exits. The strength of venture capital investments combined with the Chinese Government’s determination to support innovative technology companies, suggests the longer term outlook for China technology IPOs is good.”

– **Jianbin Gao**
 Technology Leader,
 PwC China

Figure 4: China



Source: Dealogic with analysis by PwC.

Due to filing limitations instituted by the Chinese Security and Regulatory Commission in late 2012, the absence of Chinese technology IPOs continued.

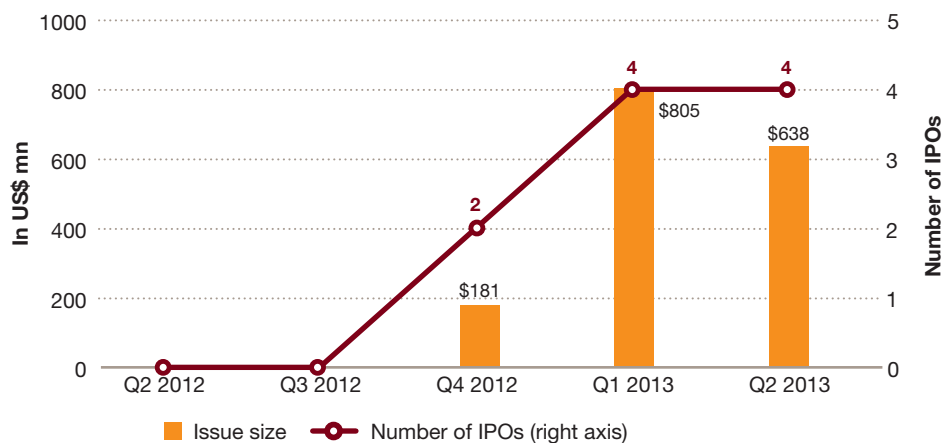
The number of US IPOs increased to 12, a growth of 100% quarter over quarter and 50% year over year. In terms of deal value, US technology IPOs raised US\$2.2bn, a 139% increase sequentially, but 87% decline year over year (including the Facebook IPO of US\$16bn). Excluding the Facebook IPO, proceeds raised were up 59% year-over-year.

The total number of IPOs in other countries remained constant as compared to the previous quarter with four deals. However the total proceeds declined by 21% to US\$637.6mn in the current quarter, as compared to US\$805.1mn in the previous quarter.

“A weakening rupee and continuing global economic challenges presented substantial obstacles for Indian companies to attract investment. The secondary markets also experienced challenges. Upcoming elections in 2014 in India add another dimension of uncertainty. Despite these odds, the sliding rupee does present benefits to the Indian exporter of software and IT services and with momentum still continuing in this sector, one can expect better IPO performance in the coming quarters.”

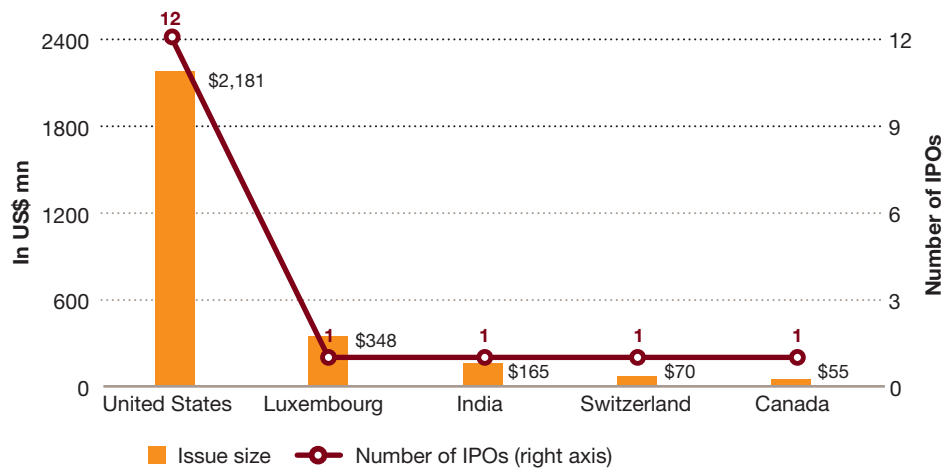
– **Sandeep Ladda**
Technology Industry
Leader, PwC India

Figure 5: All other countries



Source: Dealogic with analysis by PwC.

Figure 6: Geographic distribution



Source: Dealogic with analysis by PwC.

In the absence of Chinese IPOs, the US led IPO activity over the last two quarters. The US witnessed six out of ten IPOs and 12 out of 16 IPOs during the first and second quarter of 2013 respectively. Total proceeds raised in the US during the current quarter were US\$2.2bn, which was 78.5% of global total proceeds. EVERTEC, Inc. was the biggest issue in the US (Puerto Rico) with proceeds of US\$505.3mn. The other geographic locations witnessed one IPO each, Intelsat SA from Luxembourg being the largest with proceeds of US\$347.8mn.

“Because of recent lacklustre returns, Canadian investors are looking for alternatives to their traditional natural resources sector for investments. With its strong performance over the last couple of years, the technology sector is a natural option. So while Halogen Software marks the first major technology IPO since 2011, there’s reason to believe that it will be the first of a steady stream—good news for emerging technology entrepreneurs in Canada who, according to a recent PwC survey, don’t see IPO as a viable exit for their companies.”

– Chris Dulny
Technology Leader, PwC Canada

Figure 7: Region—North America (NASDAQ, NYSE)*

Issue Date (mm/dd/yyyy)	Company	Subsector	Proceeds (in US\$ mn)	Primary Exchange	Domicile nation
06/26/2013	CDW Corporation	Computer Storage & Peripherals	\$395.3	NASDAQ	United States
06/26/2013	Tremor Video, Inc.	Internet Software & Services	\$75.0	NYSE	United States
06/20/2013	Gogo Inc.	Communications Equipment	\$187.0	NASDAQ	United States
06/11/2013	Gigamon Inc.	Software	\$128.3	NYSE	United States
06/06/2013	Textura Corporation	Software	\$75.0	NYSE	United States
05/22/2013	ChannelAdvisor Corporation	Internet Software & Services	\$80.5	NYSE	United States
05/16/2013	Tableau Software, Inc.	Software	\$254.2	NYSE	United States
05/16/2013	Marketo, Inc.	Software	\$78.8	NASDAQ	United States
05/09/2013	Halogen Software Inc.	Internet Software & Services	\$54.8	Toronto	Canada
05/08/2013	Cyan, Inc.	Software	\$88.0	NYSE	United States
04/18/2013	Blackhawk Network Holdings, Inc.	Internet Software & Services	\$230.0	NASDAQ	United States
04/11/2013	EVERTEC, Inc.	Computer Storage & Peripherals	\$505.3	NYSE	US (Puerto Rico)
04/11/2013	Rally Software Development Corp.	Software	\$84.0	NYSE	United States

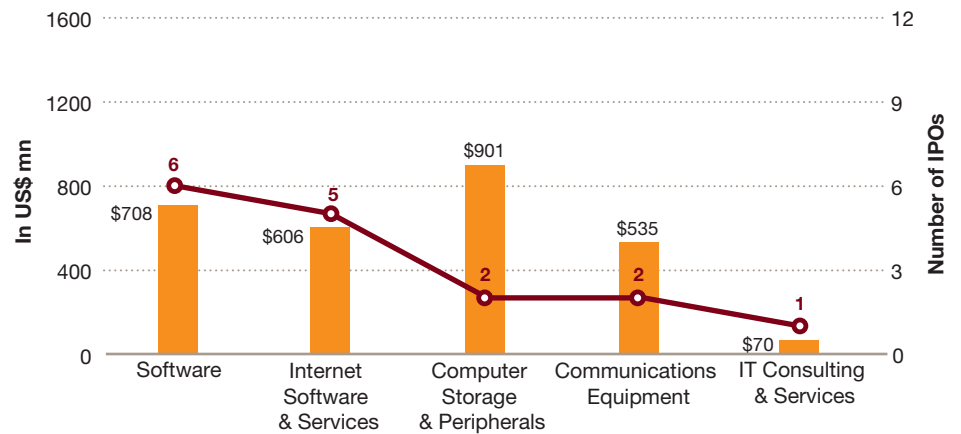
Source: Dealogic with analysis by PwC.

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

Sector distribution

The software subsector witnessed the highest number of IPOs for the second consecutive quarter. It recorded six IPOs with total proceeds of US\$708.2mn, amounting to 25.1% of total proceeds. In terms of number of IPOs, the Internet Software & Services subsector followed Software with five IPOs that raised US\$605.7mn. Two sizable deals in the Computer Storage & Peripherals subsector (EVERTEC, Inc., US\$ \$505.3mn, and CDW Corporation, US\$ \$395.3mn) pushed it to the top position in terms of proceeds among all sectors with total proceeds of US\$900.5mn. For the second consecutive quarter, the Communications Equipment and IT Consulting & Services subsectors witnessed two and one IPO respectively. Whilst Communications Equipment sector's total proceeds increased from US\$402mn in Q1 2013 to US\$534.8mn in the current quarter, IT Consulting & Services witnessed a substantial decline from US\$426mn in Q1 2013 to US\$70mn in the current quarter.

Figure 8: Sector distribution

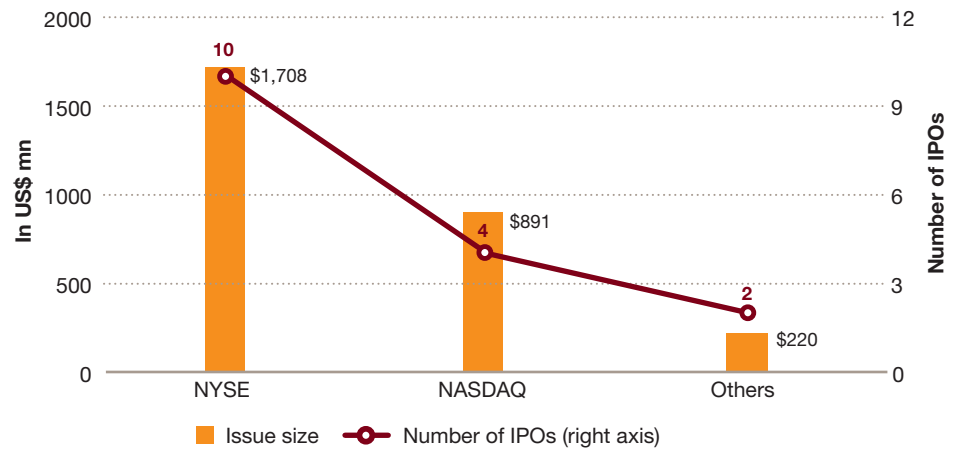


Source: Dealogic with analysis by PwC.

Stock exchange distribution

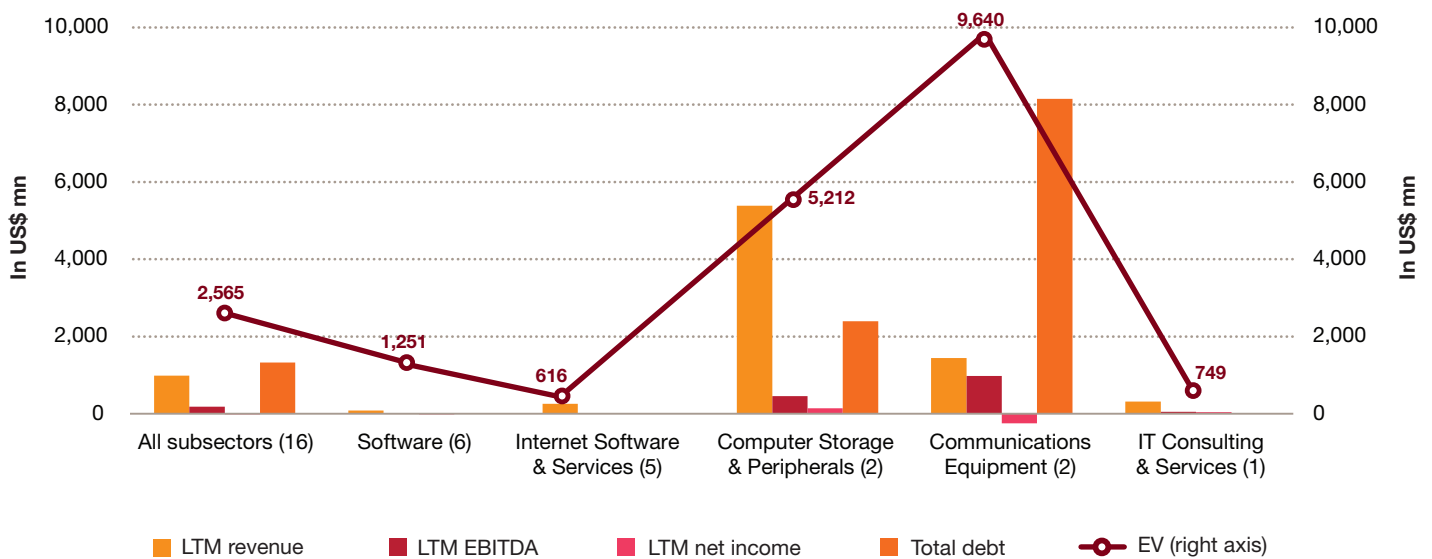
US exchanges continue to be the most active, with US\$2.6bn proceeds raised and 14 IPOs. The New York Stock Exchange (NYSE) led with ten IPOs and total proceeds of US\$1.7bn, while NASDAQ followed with four IPOs and total proceeds of US\$891mn. The remaining two IPOs were from India's Bombay Stock Exchange (BSE) US\$165.4mn, and Canada's Toronto Stock Exchange US\$54.8mn.

Figure 9: Stock exchange distribution



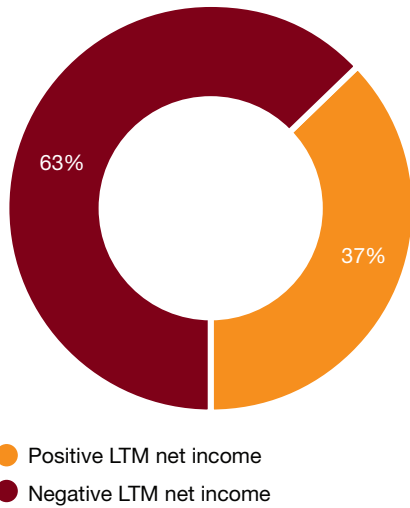
Source: Dealogic with analysis by PwC.

Figure 10: Key financials



Source: Dealogic with analysis by PwC.

Figure 11: Net income status in 2Q 2013 technology IPO universe (16)



Source: Dealogic with analysis by PwC.

We considered the financials of the 16 IPO companies to calculate the average subsector financials.

The average Last Twelve Months (LTM) revenue for all subsectors stood at US\$986.2mn and average LTM EBITDA at US\$183.9mn. The biggest contributor to the average LTM revenue was CDW Corporation from the Computer Storage & Peripherals subsector with LTM revenue of US\$10.2 bn.

The average LTM revenue of the Software subsector stood at US\$86.4mn from six IPOs. However, the average LTM net income for the Software subsector was negative due to LTM net loss by five of the six companies during the quarter. However, the average total debt was the lowest amongst all the subsectors at US\$7.2mn.

The Internet Software & Services subsector had an average LTM revenue of US\$259.6mn from five IPOs. Blackhawk Network Holdings, Inc. was the largest IPO in the subsector with US\$ 1.1bn of LTM revenue. This subsector witnessed three out of five IPOs reporting LTM net loss, thus pulling down the average to US\$3.2mn.

Computer Storage & Peripherals was the leading subsector in terms of LTM revenue. The average LTM revenue of the subsector was primarily driven by the LTM revenue of CDW Corporation at US\$10.415bn.

The Communications Equipment subsector had the highest average total debt amongst all the other sectors. It was primarily owing to the over-leveraged Intelsat SA, with enterprise value (EV) of US\$18.2bn and total debt of US\$16.2bn.

IT Consulting & Services had only one IPO, Luxoft Holding, Inc. reported during the quarter. Whilst LTM revenue was the second lowest after the Software subsector, LTM net income was the second highest after Computer Storage & Peripherals.

Out of the 16 IPOs during the quarter, ten reported LTM net losses and the remaining six reported LTM net income. Whilst five out of ten companies which reported LTM net losses were from the Software subsector, the remaining five were from Internet Software & Services (three) and Communications Equipment (two) subsectors.

Three of the 16 IPOs were backed by private equity firms.

IPO deals: Valuation metrics

The average EV/LTM revenue and EV/LTM EBITDA of all subsectors within technology IPOs was 2.6x and 14.0x, respectively. The Software subsector witnessed the highest EV/LTM revenue of 14.5x, whilst the Internet Software & Services subsector recorded the highest EV/LTM EBITDA of 34.0x.

Within the Software subsector, Textura Corporation and Tableau Software, Inc. witnessed the highest EV/LTM revenue multiples of 26.0x and 23.9x, respectively. However, the EV/LTM EBITDA multiple was not meaningful because both the companies had negative EBITDA.

Just Dial Limited was the most valued stock in the Internet Software & Services subsector, with EV/LTM revenue and EV/LTM EBITDA multiples of 11.7x and 41.4x respectively. Also, the high EV/LTM EBITDA multiple of the sector was primarily due to the negative EBITDA from three out of five companies during the last twelve months.

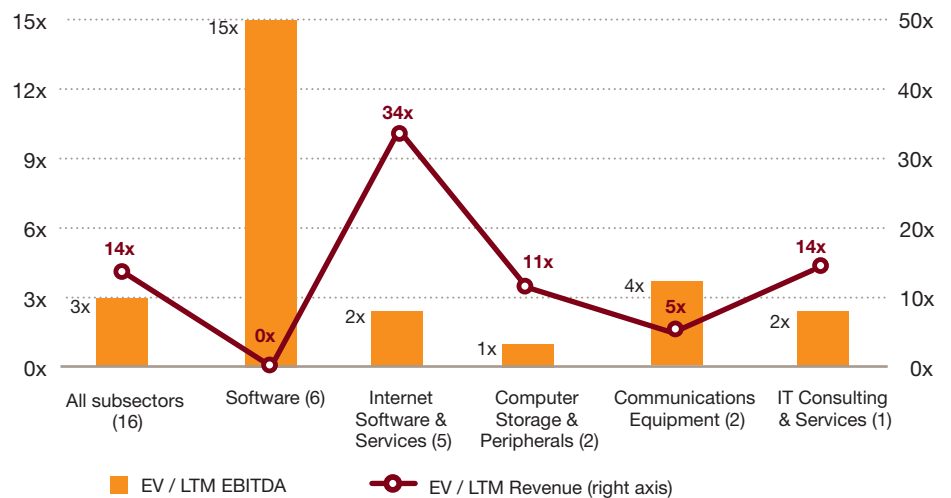
Despite witnessing the top two IPOs during the quarter, the Computer Storage & Peripherals subsector witnessed the lowest EV/LTM revenue of 1.0x. While CDW Corporation appeared to be undervalued at a 0.7x of EV/LTM revenue multiple, EVERTEC, Inc. traded at 8.0x its EV/LTM revenue multiple.

The Communications Equipment subsector witnessed the second highest EV/LTM revenue multiple of 3.6x, and lowest EV/LTM EBITDA of 5.3x amongst all the sectors.

Luxoft Holding, Inc. was the only IPO in IT Consulting & Services subsector. It traded at 2.4x of EV/LTM revenue and 14.4x EV/LTM EBITDA multiple. Although the EV/LTM revenue was second lowest as compared to other subsectors average, EV/LTM EBITDA was second highest.

Subsector averages are relatively skewed as there are some subsectors with only one or two companies in this quarter's technology IPOs.

Figure 12: IPO deals: Valuation metrics



Source: Dealogic with analysis by PwC.

Methodology

The Global Technology IPO Review for Q2 2013 is based on PwC's analysis of transaction data extracted from Dealogic. The analysis considers IPOs across all countries worldwide from 1 April 2013 to 30 June 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

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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