

PROFESSOR DR. ERIK P.M. VERMEULEN

# THE TRUTH ABOUT IPOS OF HIGH TECH COMPANIES



# The Importance of IPOs

WHERE EVERYONE WANTS TO BE AN ICON

Cash Flow

Investors

Exit

VC

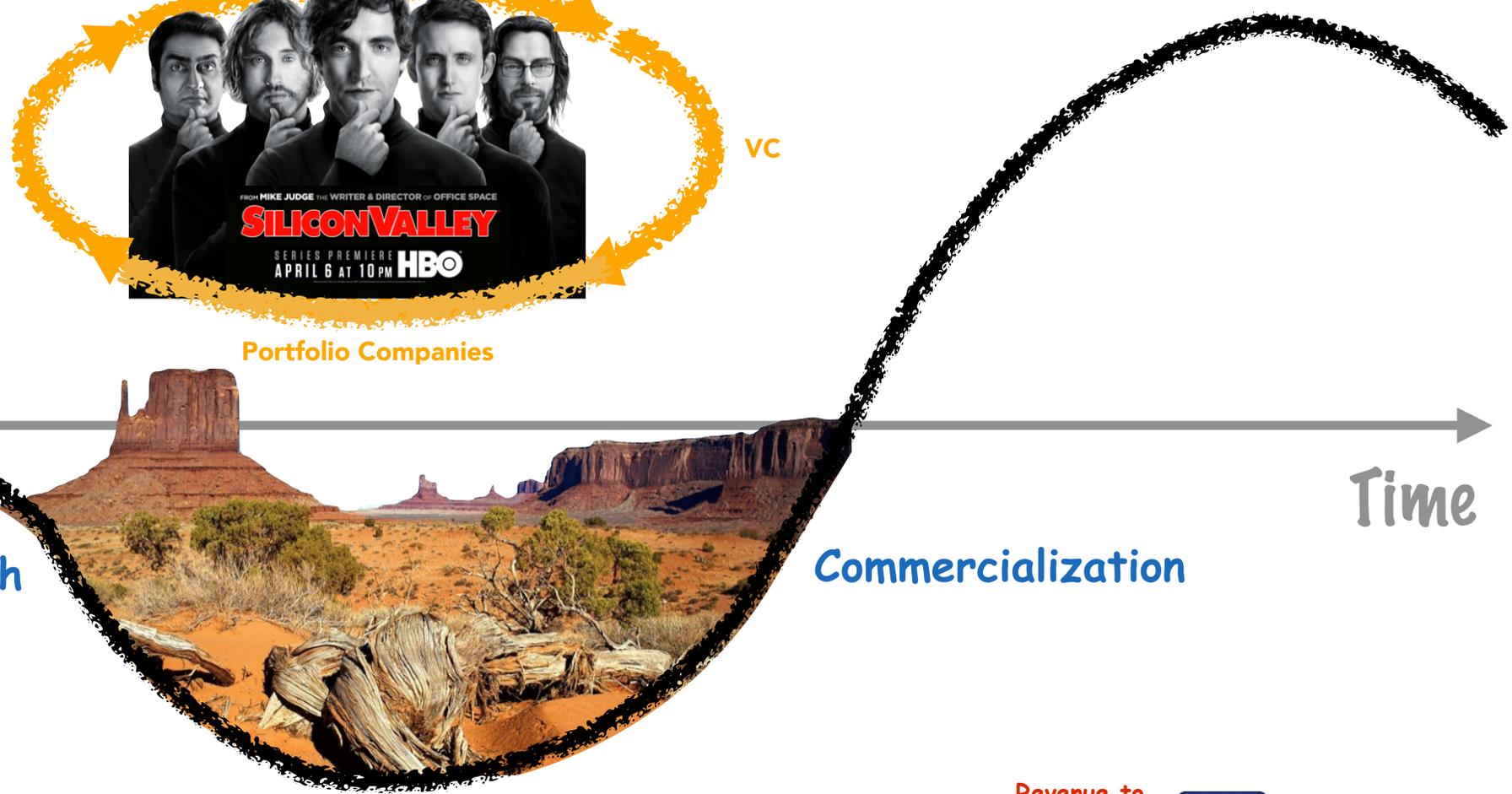


Portfolio Companies

Research

Commercialization

Time



“Valley of Death”

Google	Revenue to Expense Ratio: 103.46%	
Kite Pharma	Revenue to Expense Ratio: 111.83%	
		Revenue to Expense Ratio: 124.03%

Years between being founded and going public

1

2

3

4

5

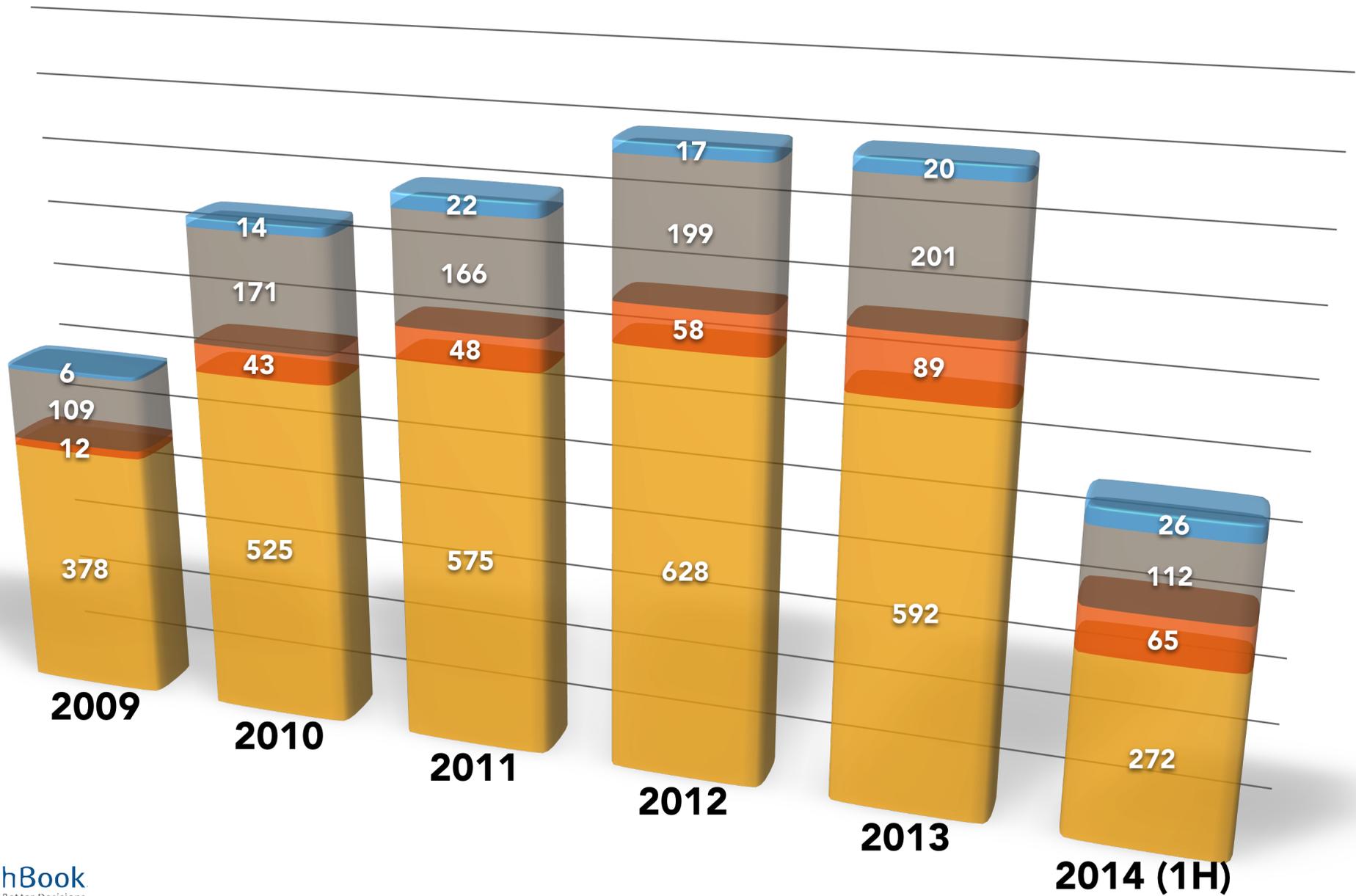
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7

8

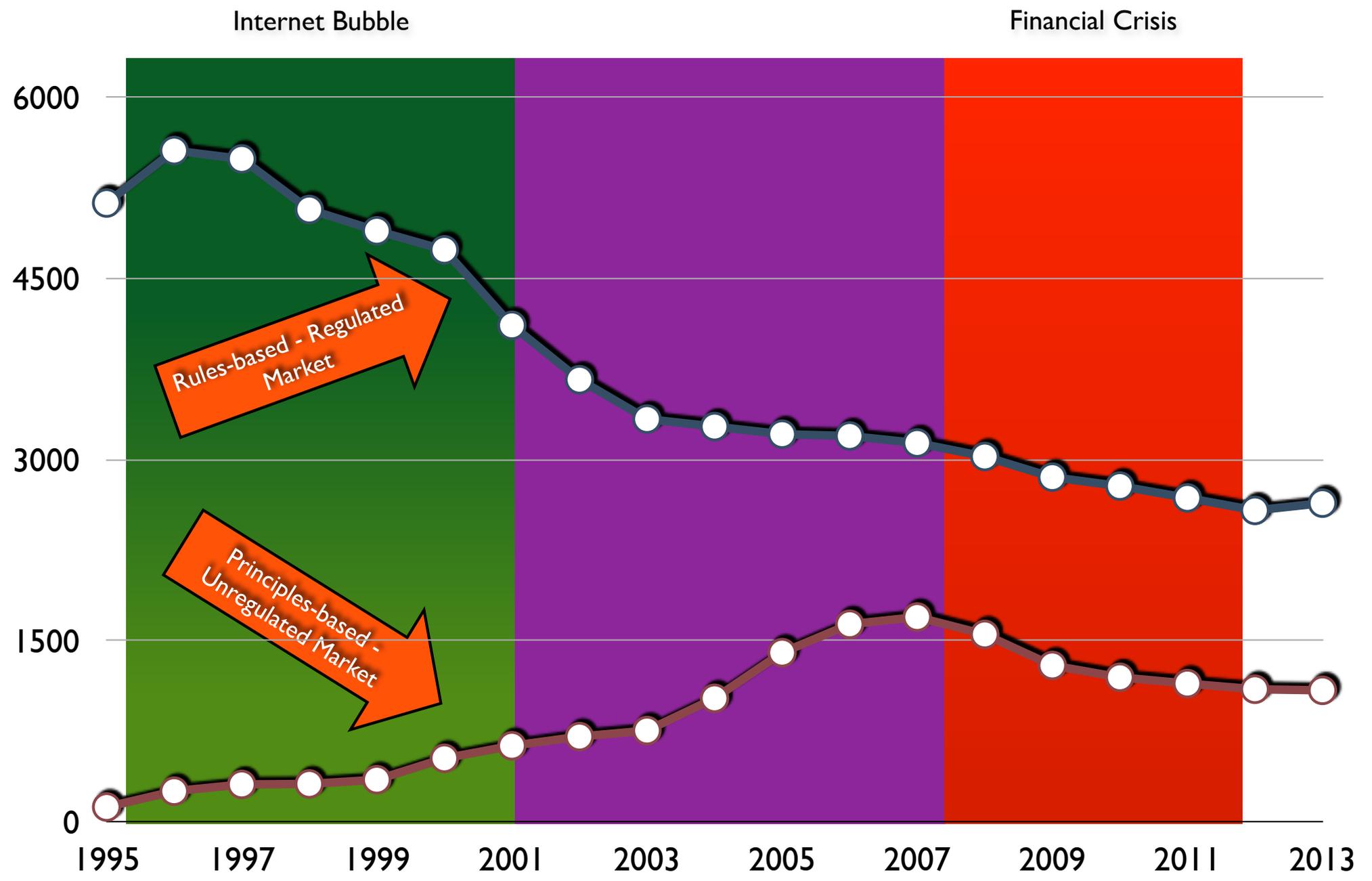
# VC-BACKED EXITS

■ Aquisition US   ■ IPO US   ■ Acquisition EU   ■ IPO EU

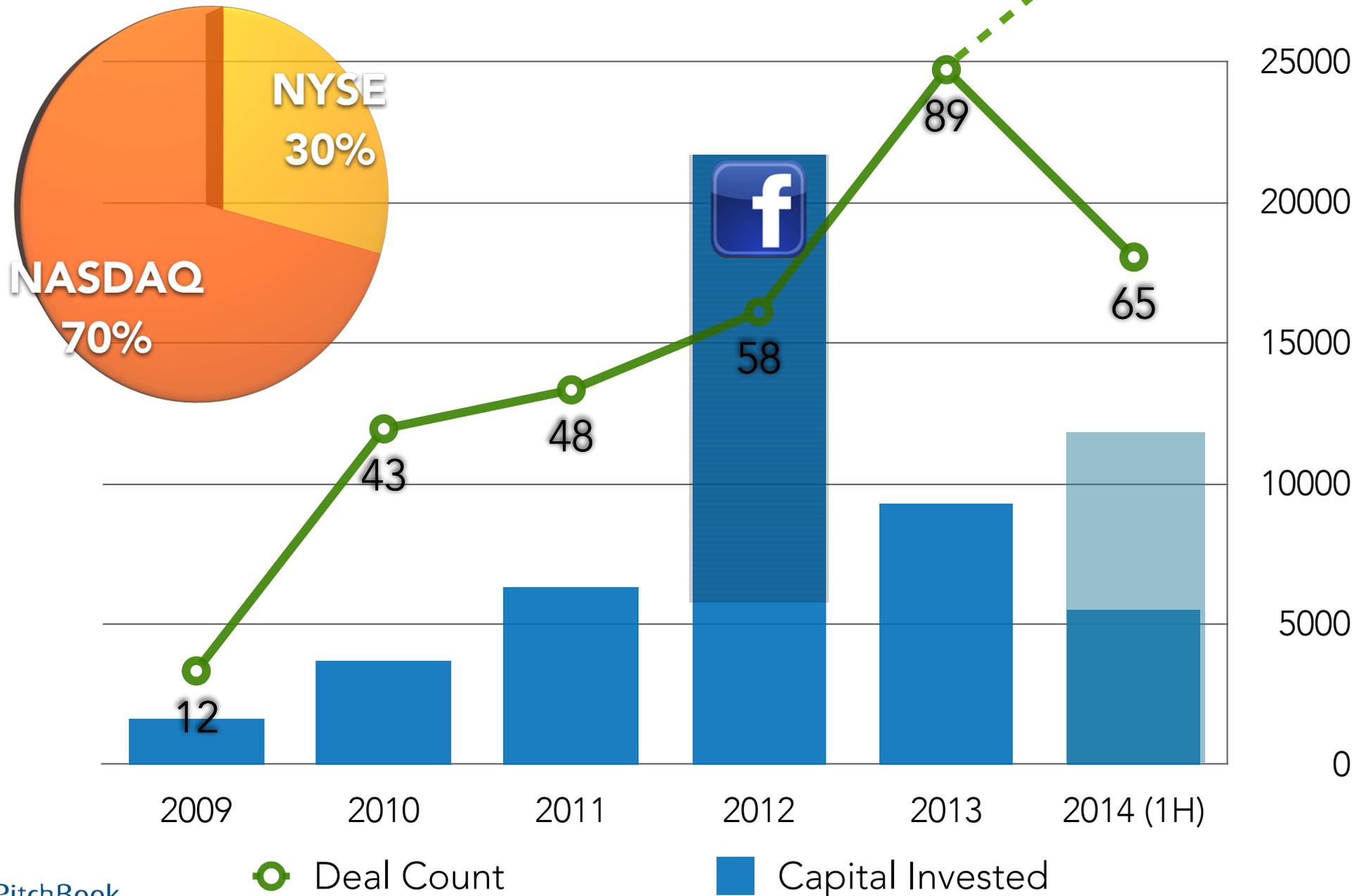


# IPO ALTERNATIVES

○ NASDAQ (total listed companies)  
○ AIM (total listed companies)



# US IPO ACTIVITY INCREASES



THE CORNERSTONE OF THE JOBS ACT IS THE CREATION OF AN "IPO ON-RAMP," WHICH PROVIDES **EMERGING GROWTH COMPANIES** WITH A PHASE-IN PERIOD TO FULLY COMPLY WITH VARIOUS DISCLOSURE AND ACCOUNTING REQUIREMENTS



# Emerging Growth Companies

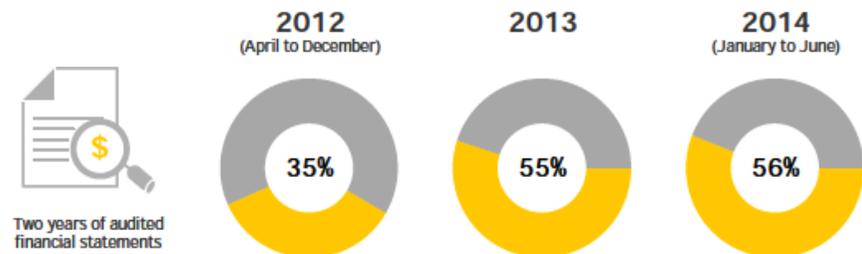
- **Testing the Waters** – Before or after filing a registration statement, EGCs may meet with qualified institutional buyers (QIBs) and other institutional accredited investors to gauge their interest in a contemplated offering.
- **Confidential SEC Review** – EGCs may initiate the SEC registration process confidentially.
- **Scaled Financial Disclosure** – EGCs may go public using two years, rather than three years, of audited financial statements and as few as two years, rather than five years, of selected financial data.
- **Internal Controls Audit** – EGCs are exempt from the internal controls audit required by Section 404(b) of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley).
- **Executive Compensation Disclosure** – EGCs may use streamlined executive compensation disclosure and are exempt from the shareholder advisory votes on executive compensation required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank).
- **Extended Phase-In for New GAAP** – EGCs may use private-company phase-in periods for new accounting standards.
- **PCAOB Rules** – EGCs are exempt from any Public Company Accounting Oversight Board rules that, if adopted, would mandate auditor rotation or auditor discussion and analysis.



## How Confidential Filing And The JOBS Act Is Changing The IPO Game

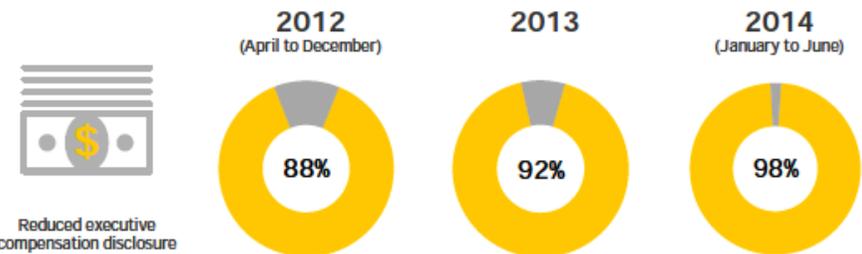
A group of venture capitalists say the ability afforded by the JOBS Act to confidentially file IPO documents is changing the nature of the game. There are more companies filing as a result of the legislation.

Use of relief for number of audited financial statement periods provided\*



Percentage of EGCs in the top three sectors providing two years of audited financial statements\*

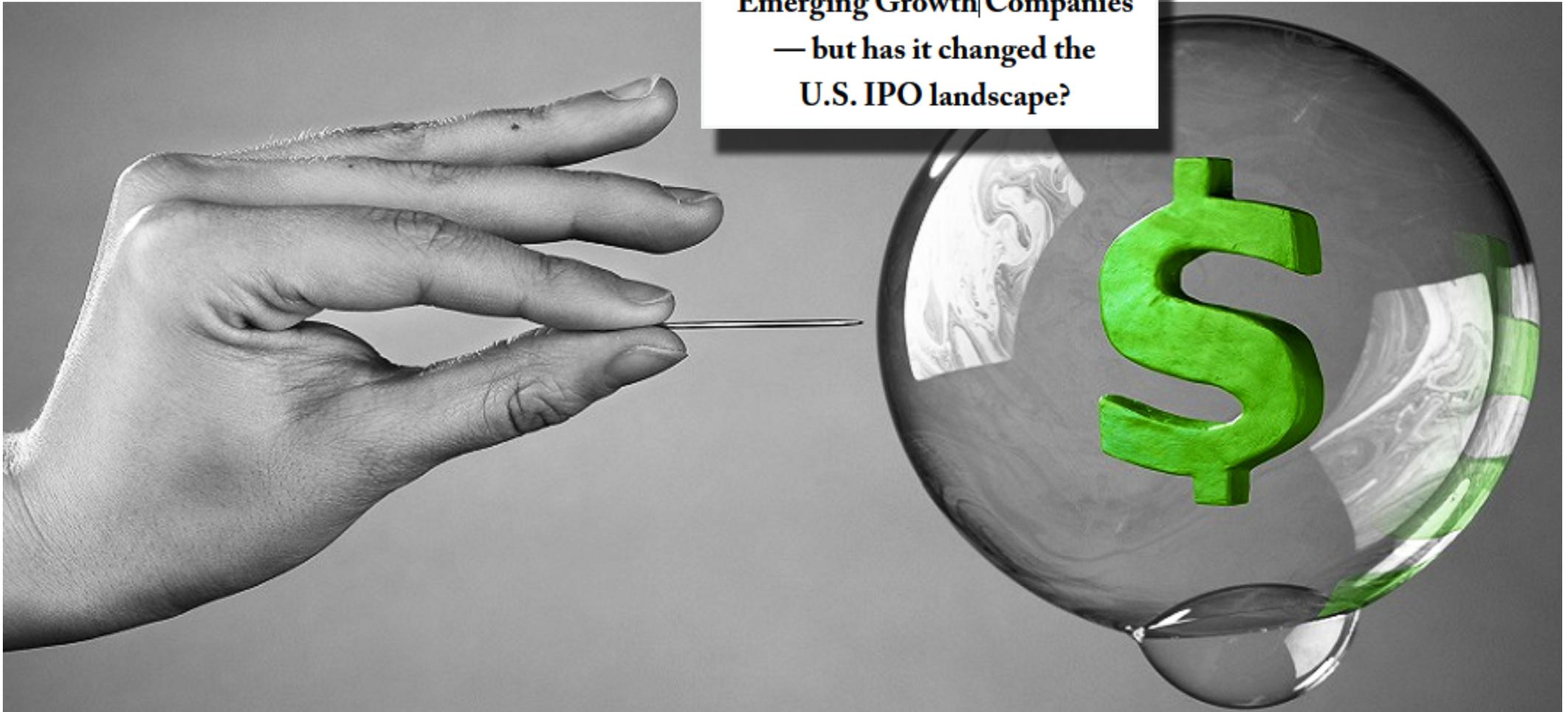
Use of executive compensation disclosure relief by year\*

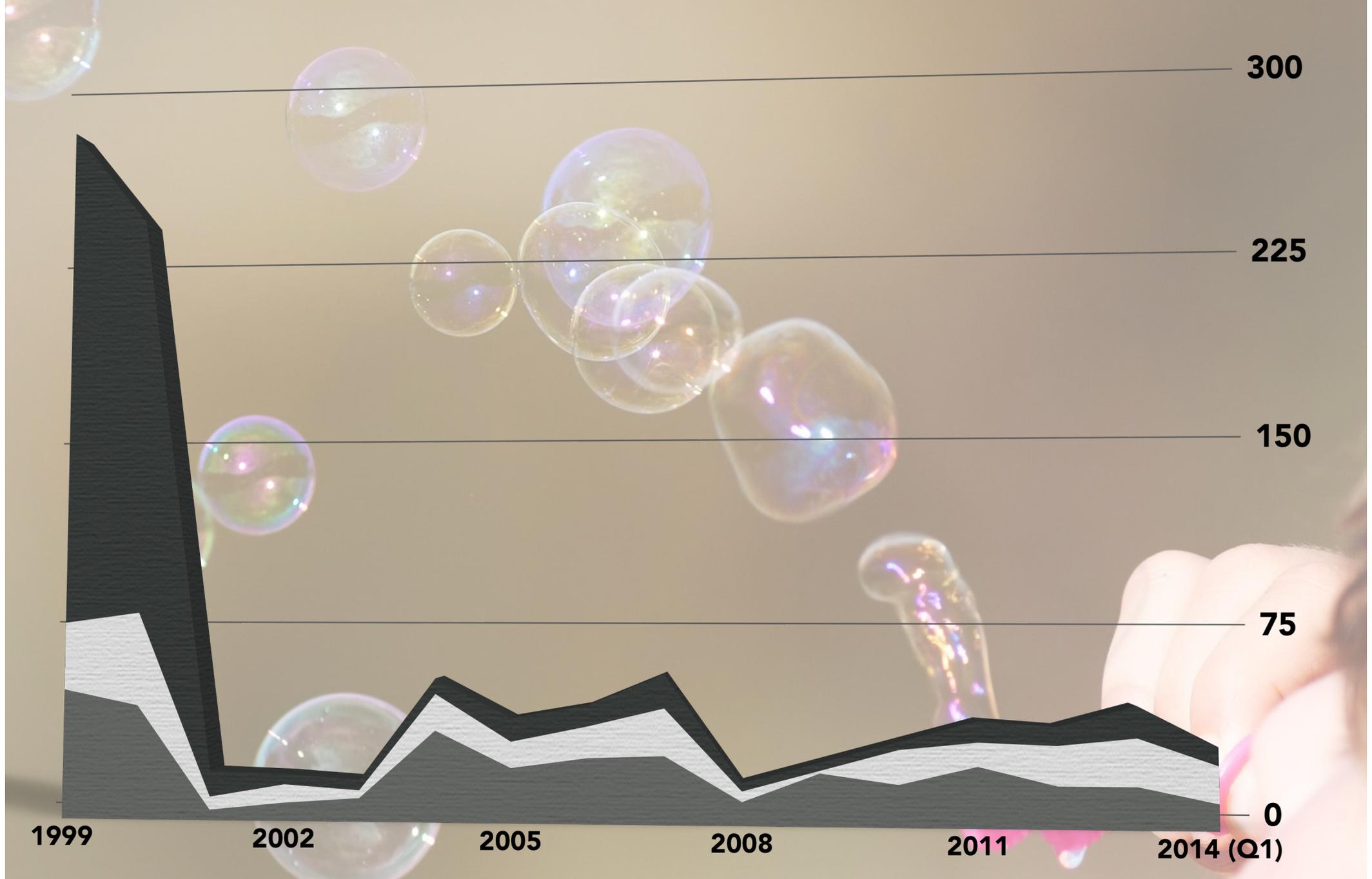


\* Excludes EGCs that also qualify as a smaller reporting company or a foreign private issuer.

# ARE WE IN A TECH BUBBLE?

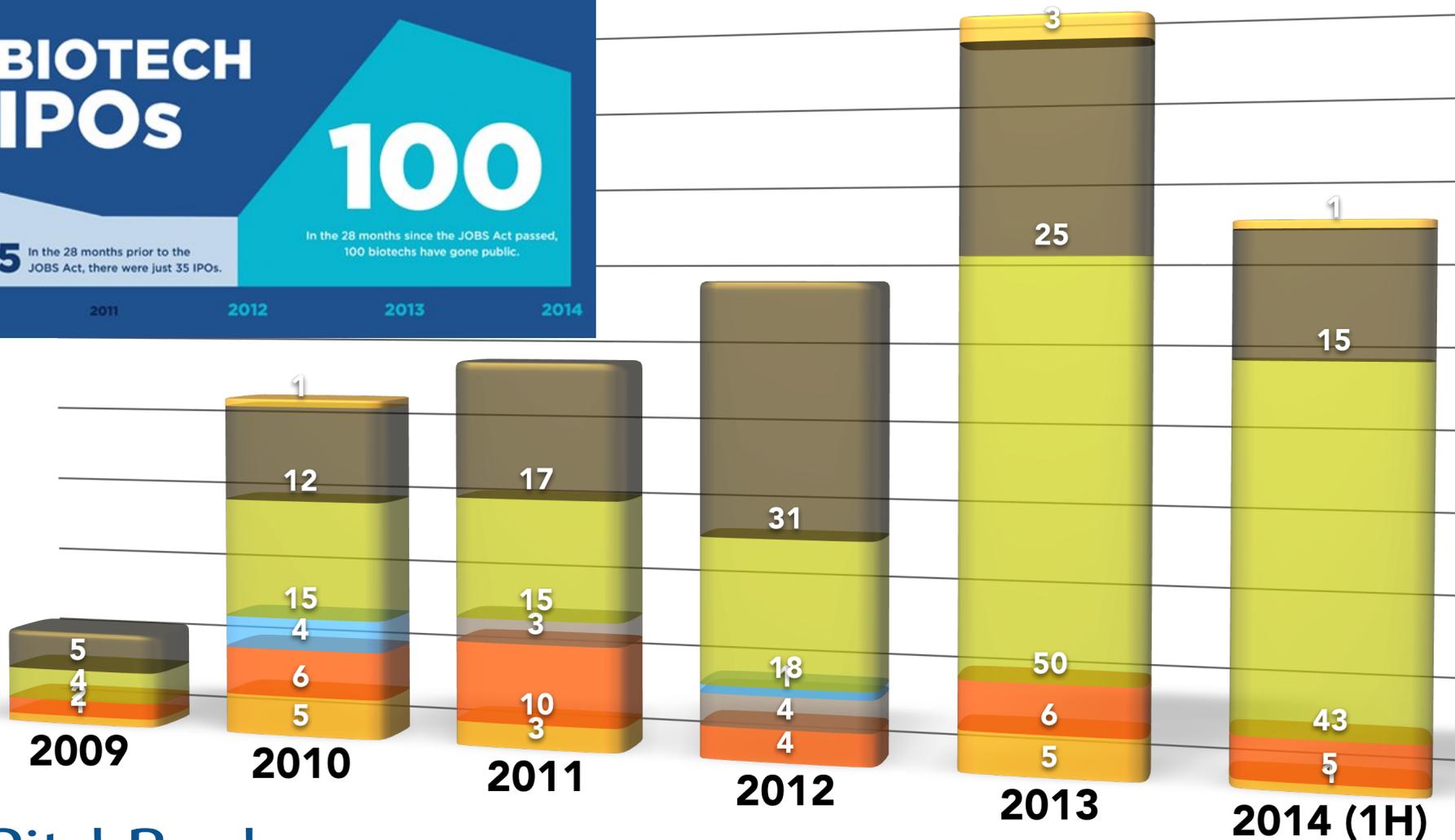
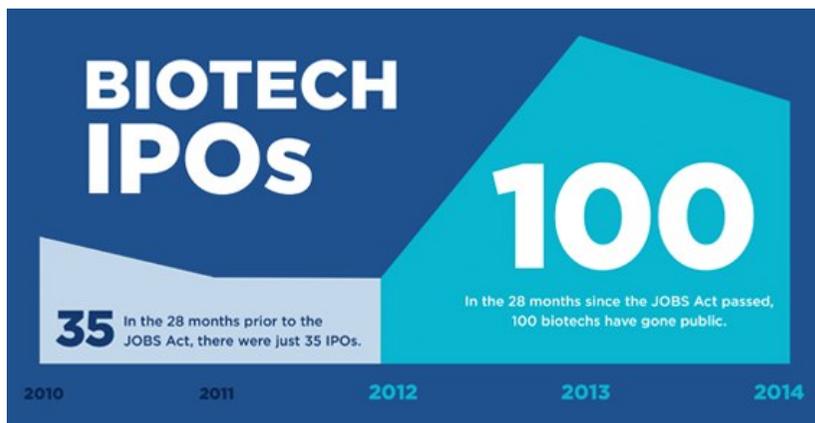
**The JOBS Act attempted to ease and reshape regulation around initial public offerings by creating a new classification for going-public companies — “Emerging Growth Companies” — but has it changed the U.S. IPO landscape?**





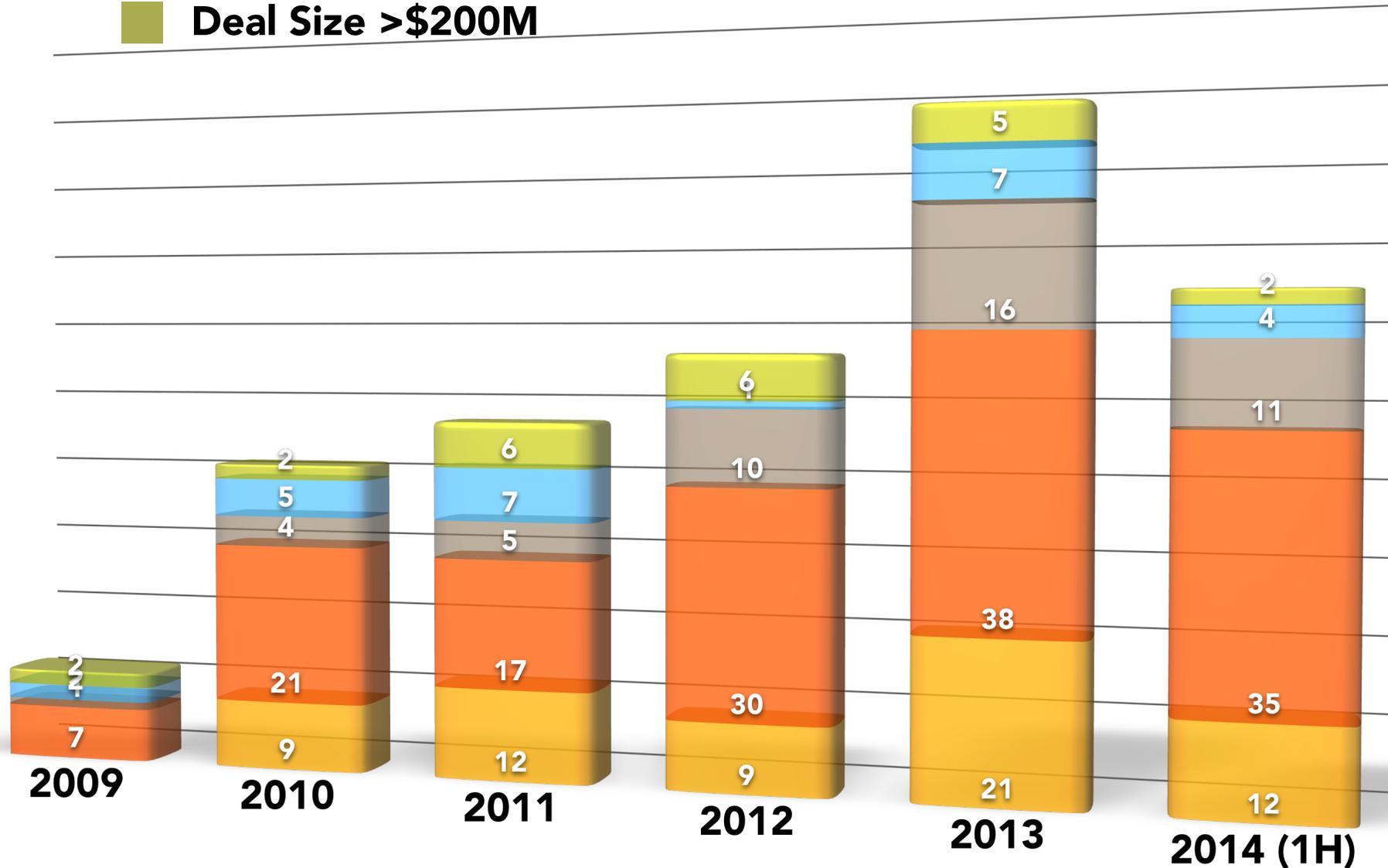
- Not Profitable at IPO (ratio 0-80%)
- Almost Profitable at IPO (ratio 81-100%)
- Profitable at IPO (ratio >100%)

# IMPACT OF THE JOBS-ACT?

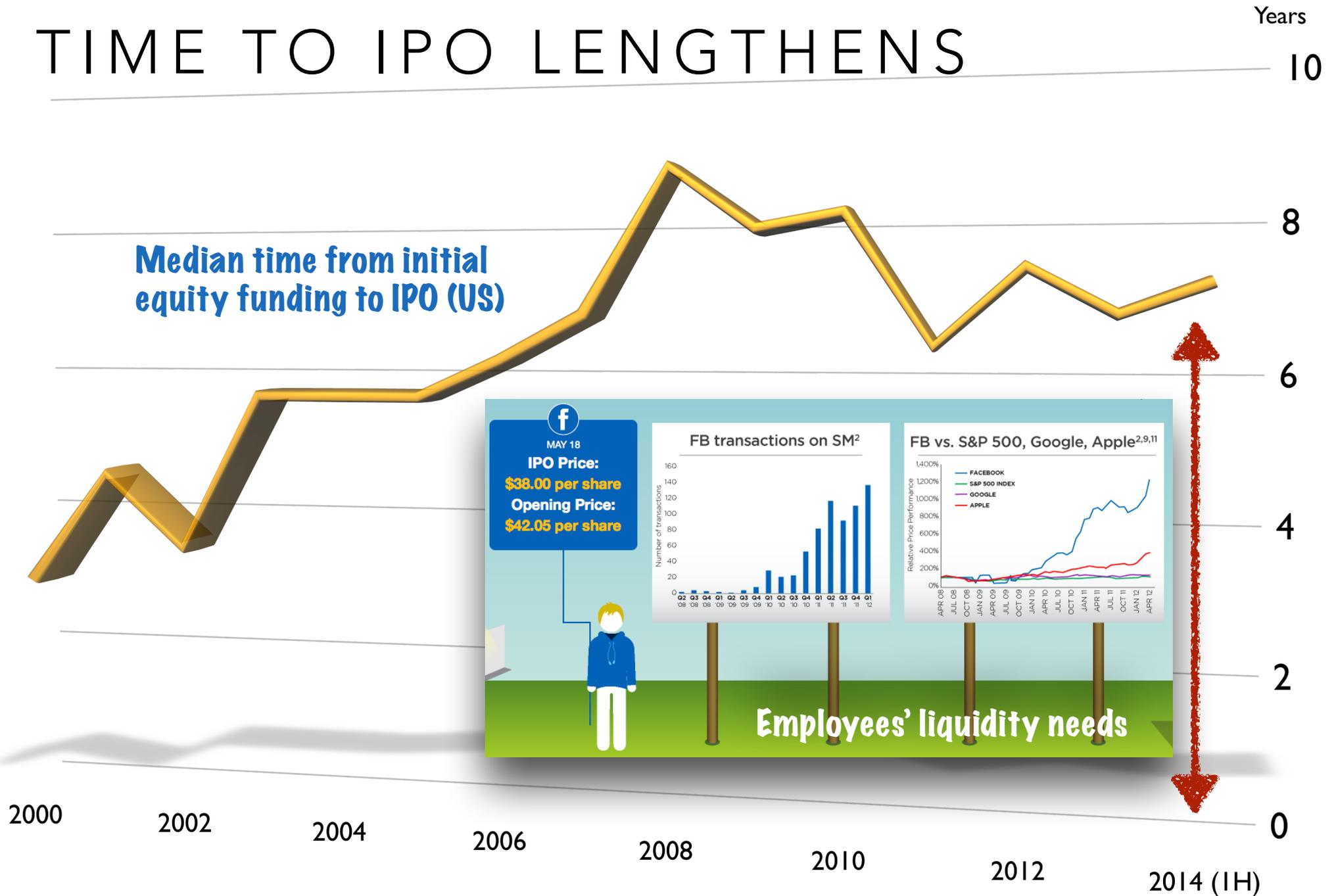


# IMPACT OF THE JOBS-ACT?

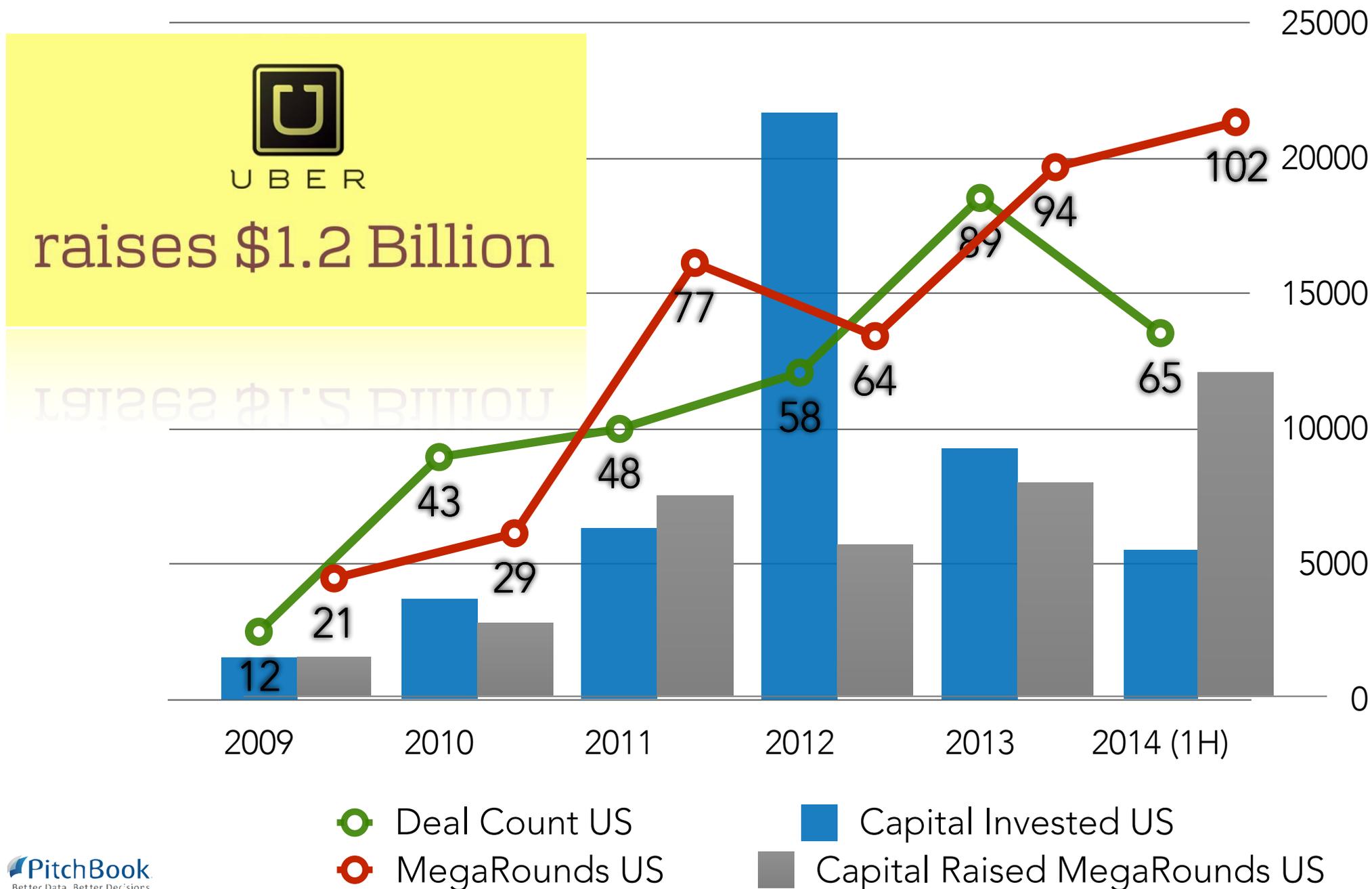
- Deal Size \$0-50M
- Deal Size \$51M-100M
- Deal Size \$101M-150M
- Deal Size \$151M-200M
- Deal Size >\$200M



# TIME TO IPO LENGTHENS



# IPO VERSUS MEGAROUNDS IN THE UNITED STATES



1



## Nasdaq Wants to Plant IPO Seeds With Private-Share Market

Nasdaq Sees 'Tremendous Opportunity' in Offering Services to Private Firms

Tiger Global Management was the most active investor in the largest tech financings of 2014. Silicon Valley took 70% of the deals.



2



"We believe that the costs of going public and running a public company outweigh the benefits for us at this time. However, we wanted to reward the SurveyMonkey team for their hard work by providing an innovative solution to address their liquidity needs. SecondMarket allowed those that wanted to sell stock during our recapitalization a secure, simple platform to do so easily and efficiently."

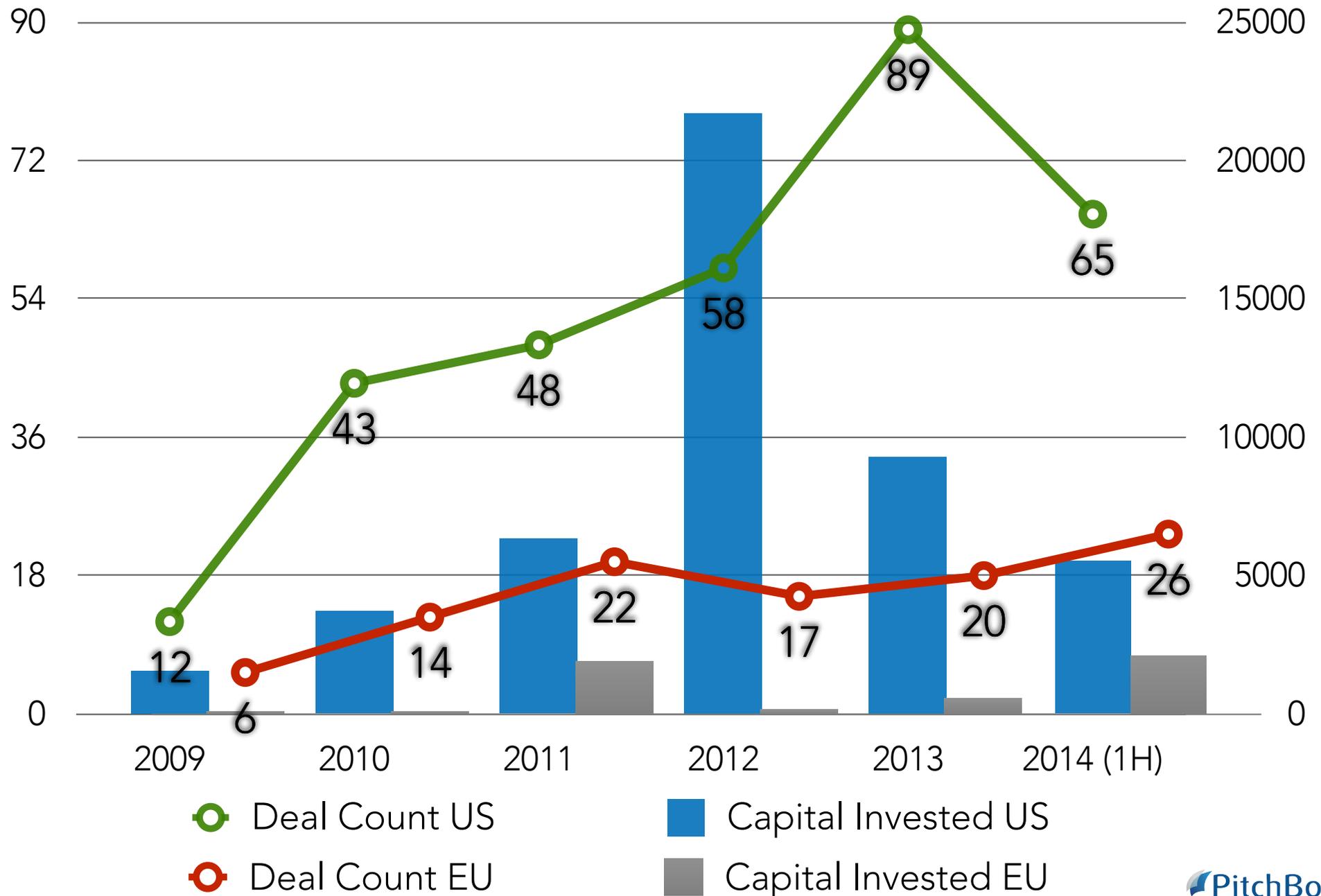
David Goldberg, SurveyMonkey CEO

3

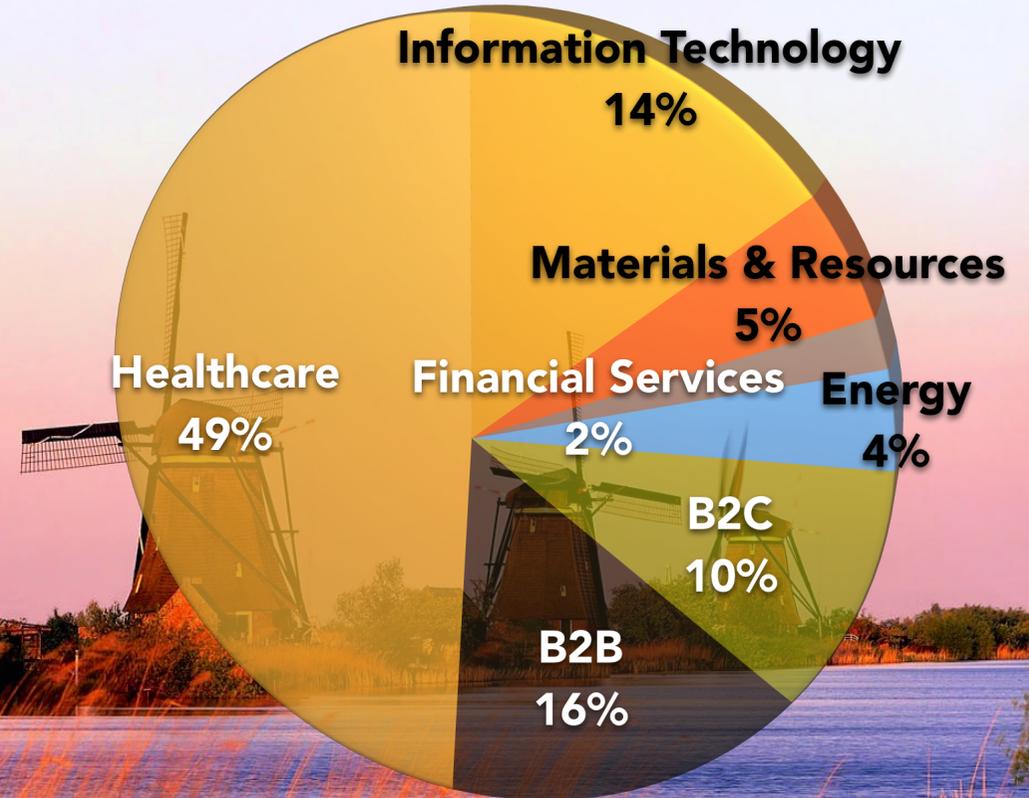
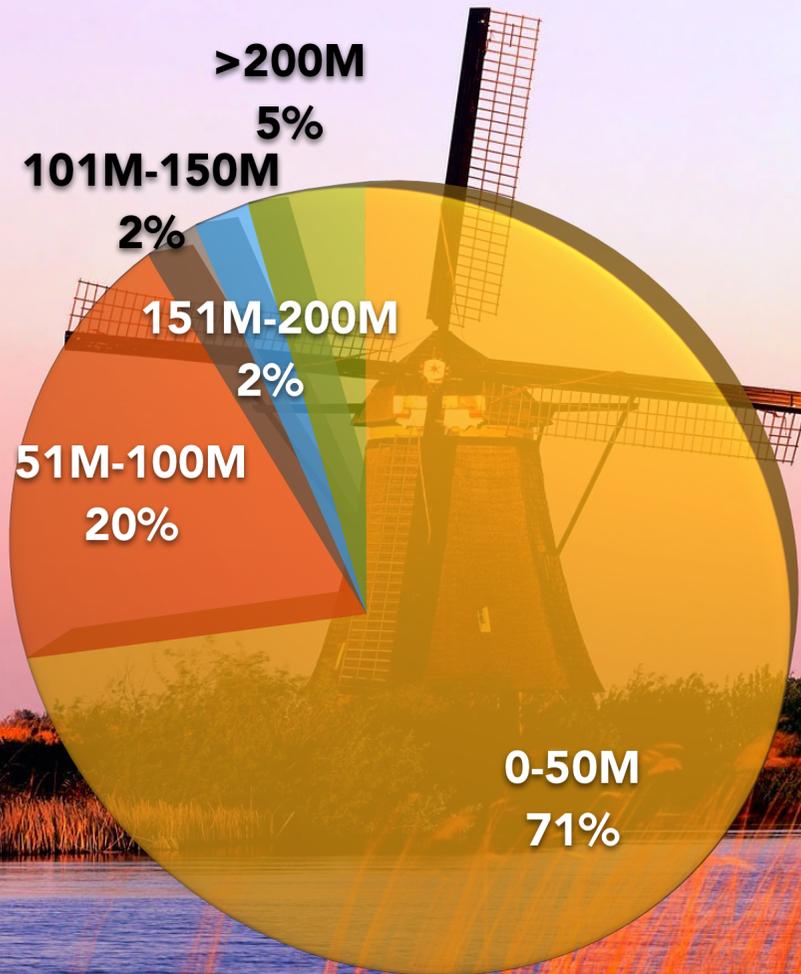


"We are encouraging all of our companies to put in place a dual-class share structure if and when they go public," said Marc Andreessen, a general partner at the firm, which has taken stakes in 156 tech enterprises over the past three years.

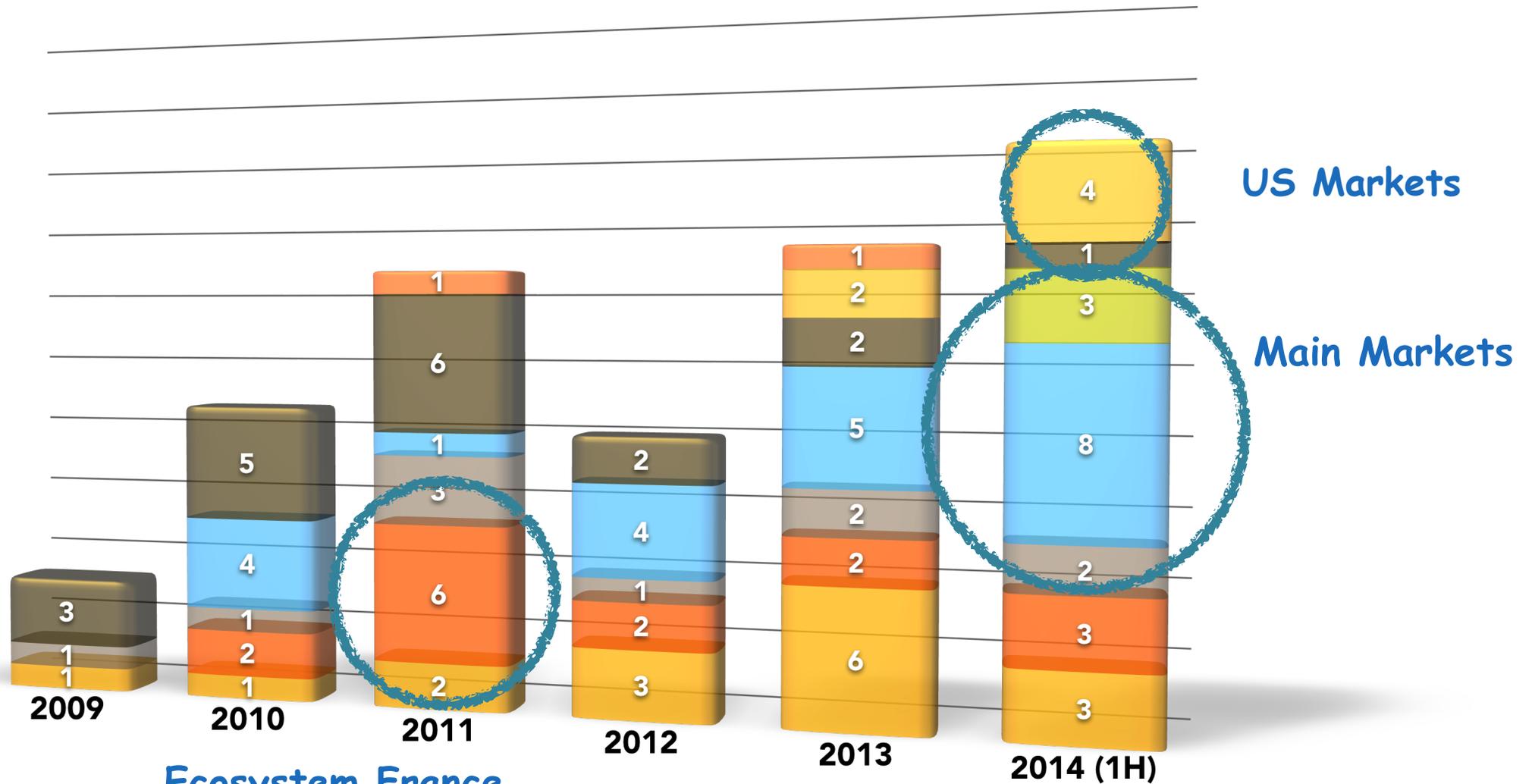
# A SIMILAR TREND IN EUROPE



# THE EUROPEAN IPO LANDSCAPE



# ALTERNATIVE MARKETS VERSUS MAIN EQUITY MARKETS



# ALTERNATIVE MARKETS VERSUS MAIN EQUITY MARKETS

Just Eat will be first 'high growth' listing as London Stock Exchange sees flood of firms floating on stock market



## Funding Gap:

<p><b>FINANCING INDUSTRY &amp; BUSINESS</b></p>  <p><b>1 trillion EUR</b> European investment needed for transport, energy and telecom infrastructure networks by 2020.</p> <p><b>11 thousand</b> number of European SMEs (out of 23 million total) which are already accessing capital markets.</p>	<p><b>CREATING JOBS</b></p>  <p><b>6 million European</b> jobs lost because of the financial crisis</p> <p>For every <b>5 jobs lost</b> by large companies during the crisis in the 4 largest EU members, <b>small and mid-sized firms</b> created <b>1 new job</b>.</p> <p><b>92%</b> of new jobs typically created by companies after listing.</p>	<p><b>MOBILISING SAVINGS</b></p>  <p><b>4,5 million</b> individual investors and savers accessing markets today (potential is much larger as 43% financial assets are held by households).</p> <p><b>10 trillion EUR</b> assets managed by European investment funds</p> <p>As populations age, demand from European investors for equity between 2010-2020 expected to fall short of the supply by <b>2 trillion EUR</b>.</p>
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## European Capital Markets Must Provide:

ECONOMIC GROWTH	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• High Quality Jobs</li> <li>• Enterprise Capture</li> </ul>
INVESTORS	<ul style="list-style-type: none"> <li>• Meeting diverse risk appetites and needs</li> <li>• Transparency and investor protection</li> <li>• Direct and indirect investment in markets</li> </ul>
COMPANIES	<ul style="list-style-type: none"> <li>• Accessible and attractive to both large and small companies</li> <li>• Enabling funding through a variety of financial instruments</li> <li>• Allowing companies to hedge against risk</li> </ul>
OPENNESS TO THE WORLD	<ul style="list-style-type: none"> <li>• Open to the world &amp; at the forefront of international standards</li> <li>• Ensuring investor protection, proper supervision, and fair competition</li> <li>• Promoting the European regulatory model as best practice</li> </ul>
SAFETY	<ul style="list-style-type: none"> <li>• Building investors' trust</li> <li>• Ensuring sound supervision</li> <li>• Avoiding taxpayer bail-outs</li> </ul>

## Europe Needs:



## Regulated Markets Critical to European Growth

- FESE Members operate some **40 exchanges** underpinned by **transparency, liquidity, neutrality, efficiency, and safety**. These platforms set reliable prices of assets, enable capital raising for large and small companies, ensure efficient allocation of assets, create wealth among broad segments of the population, and fuel sustainable and dynamic growth.
- FESE is home to some of the world's largest and safest **on-exchange derivative markets**, which enable risk management for a diverse range of enterprises as well as households.



GB USA MEX

**ONE SIZE  
DOES NOT  
FIT ALL**

30°C

Von links bügeln/ Iron inside out/  
repasser sur l'envers / 只熨反面

☒

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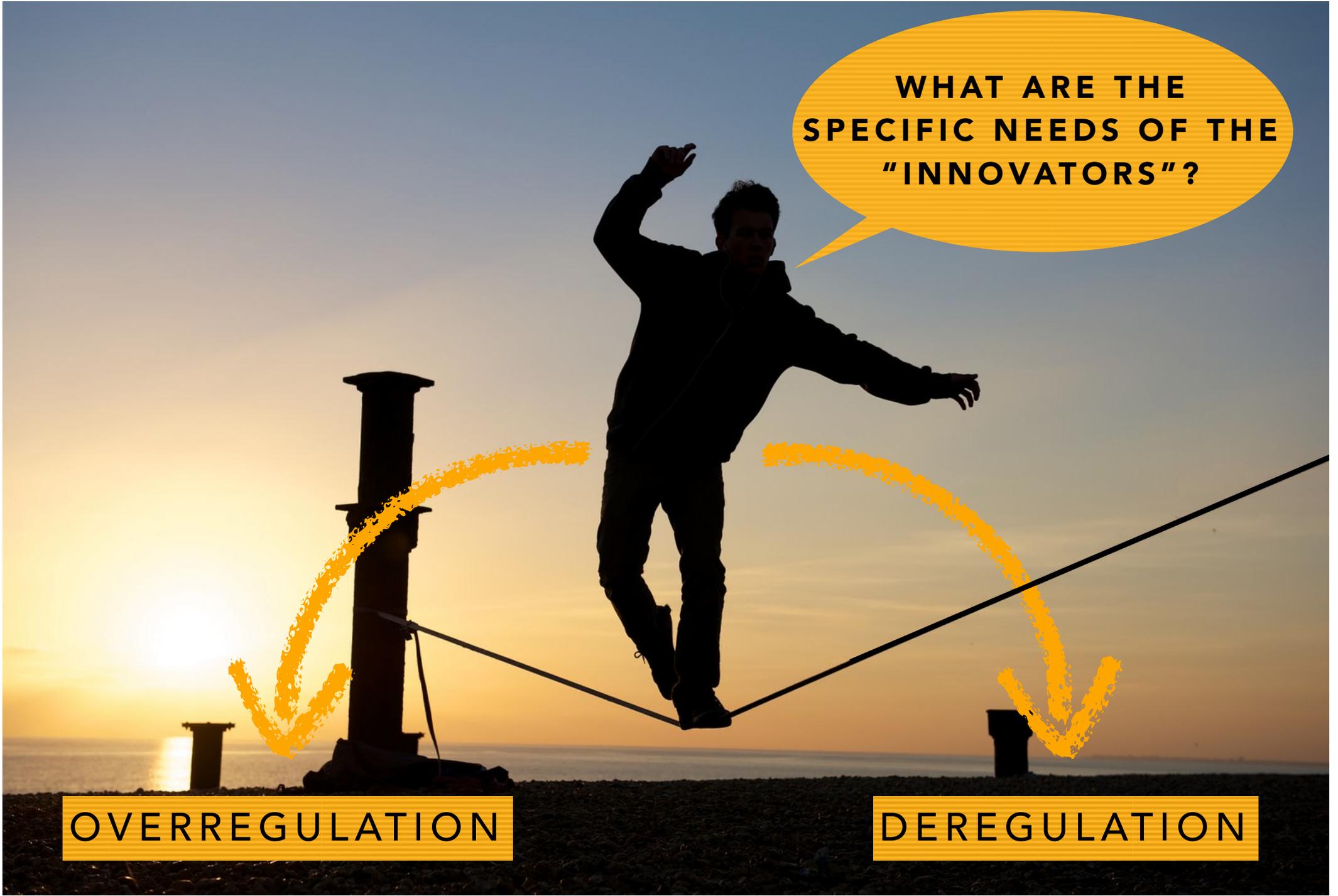
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# EQUITY MARKETS ARE CRITICAL TO ECONOMIC GROWTH AND INNOVATION

WHAT ARE THE SPECIFIC NEEDS OF THE "INNOVATORS"?

OVERREGULATION

DEREGULATION



# CONCLUSION

**Focus on Protection**

**Long-term Growth**

**One-Size-Fits-All**

**FUTURE** →

← **PAST**

**Pre-IPO  
Markets**

**Alternative - often  
unregulated - Markets**

**Flexible & Accessible  
Main Markets**

**Focus on Innovators and  
the Development of  
High Growth Companies**



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