Right team, right story, right price

Institutional investors support IPOs that come to market well prepared

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Quality In Everything We Do

Foreword

Welcome to our latest survey analyzing institutional investor sentiment toward initial public offerings (IPOs).

We are pleased to be able to report that attitudes globally are extremely positive. Among our survey base of 321 investors around the world, 82% have invested in pre-IPO or IPO stocks in the last 12 months, compared with 18% that invested in these stocks during the past two to three years. We expect this positive momentum to continue. Investors cite the prospect of a brighter earnings outlook, improving macro-economic conditions, more stable equity markets and strengthening risk appetite as the top factors likely to improve market sentiment going forward.

Investors are also clear about what they look for in a successful IPO. Good-quality companies priced right, run by the right team and with a good story to tell will command the attention of the market, even when market windows are opening and closing fast. They rank the top three success factors for IPOs as attractive pricing (the leader by a considerable margin) followed by a compelling equity story in second place and confidence in management in third. Timing was ranked a distant fourth.

It is interesting to note that investors expect to favor investment in their domestic markets for the next three years. This sentiment was particularly true of investors in North America. However, investors in Europe and the Middle East and North Africa region are more willing to invest internationally. We also found that over half the investors surveyed now give active consideration to exchange venue when considering their investment decision.

Top challenges to IPO success include wrong pricing, wrong management team and going out to market too early. The good news is that all of these can be managed by companies wanting to list. As ever, it's all about delivering on your promises — ensuring operational excellence, fulfilling investor expectations, using proceeds as promised and putting in place the corporate governance practices that will sustain a well-managed quarterly reporting program.

Ernst & Young has been the leader in taking companies public for more than a decade. We hope that the perspectives we offer here are of interest and would be happy to share further information and insight on request with companies preparing to list, with investors, and with those already established on the public markets.

Maria Pinelli

Global IPO Leader
Ernst & Young

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Confidence is rising

The appetite for investment in IPOs among institutional investors has picked up substantially over the last year. Although the number of IPOs was low in 2012 compared with other years, 82% of institutional investors surveyed have invested in IPO and pre-IPO stock in the past 12 months.

This renewed interest in IPOs as an investment opportunity perhaps reflects the high quality of companies that have successfully navigated their value journey despite the downturn. It also dispels the myth that investors are not interested in IPOs and demonstrates that confidence is returning.

"It's a myth that institutional investors do not support the IPO market. Our results show that sentiment is extremely positive. We believe it will remain so if we continue to see a brighter outlook for corporate earnings, improving macroeconomic conditions and more stable equity markets."

Maria Pinelli | Global IPO Leader | Ernst & Young

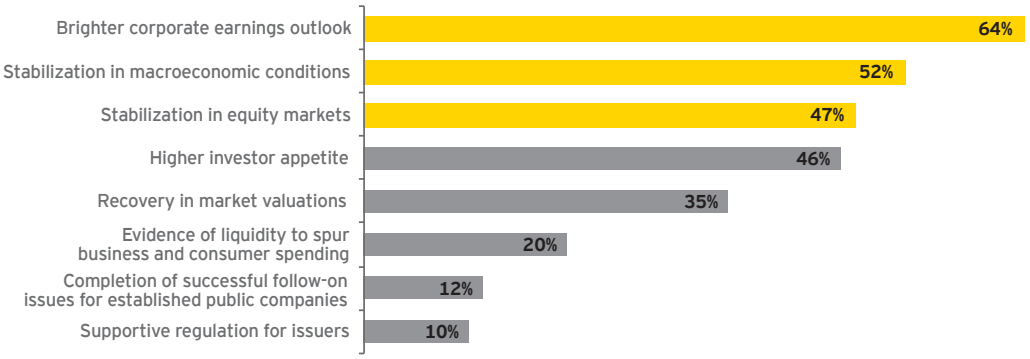
Investors are reallocating capital to equities

Although the amount of capital raised globally in 2013 for IPOs was down by 24% (US$128.6b) on 2011 levels and the number of deals was down 32% to 835, our survey points toward positive momentum in 2013. The key factors cited by institutional investors as most likely to drive an improvement in IPO market sentiment in 2013 are: a brighter corporate earnings outlook, stabilization in macroeconomic conditions, more stable equity markets and higher investor risk appetite.

It is interesting to note that higher appetite for IPOs was most marked among larger institutional investors. As confidence returns, there is greater appetite for risk-bearing assets, and institutional investors are reallocating capital to equities, particularly given the prospect of a continuing low-interest-rate environment, which is making new bond purchases relatively less attractive.

82% **of institutional investors surveyed have invested in IPOs in the last 12 months**

Factors most likely to improve IPO market sentiment



Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

Brighter earnings outlook is the primary driver for investment confidence in all regions bar one

Investors in almost every region rank a brighter earnings outlook as the key driver for improving IPO market sentiment. In Asia, confidence is particularly strong, in part fueled by strong private equity (PE) and venture capital (VC) interest, which is driving prices of pre-IPO stock higher.

Perhaps unsurprisingly, right pricing is the top success factor for IPOs in Asia, by a greater margin than in other regions. There is a strong pipeline of companies waiting to take advantage of these higher valuations, with 882 companies registered to list on Chinese exchanges at the end of December 2012.

North America is the only region where the picture is different. Here, by contrast, investors say that stabilization in macroeconomic conditions is the factor most likely to drive improved IPO market sentiment. This concern over the state of the economy was evidenced by the unprecedented public outcry at the end of 2012 over the US Government's management of the fiscal cliff, in which over 12,000 US citizens signed a petition calling for better management of the country's economy.

As the economy improves through 2013, we would expect investor sentiment in North America to fall into line with other regions.

Factors most likely to improve IPO market sentiment

	North America	Central and South America	Middle East and Africa	Europe	Asia
Brighter corporate earnings outlook	57%	60%	50%	66%	69%
Stabilization in macroeconomic conditions	65%	43%	20%	60%	51%
Stabilization in equity markets	61%	45%	50%	47%	42%
Higher investor appetite	39%	49%	50%	41%	49%
Recovery in market valuations	29%	37%	40%	38%	35%

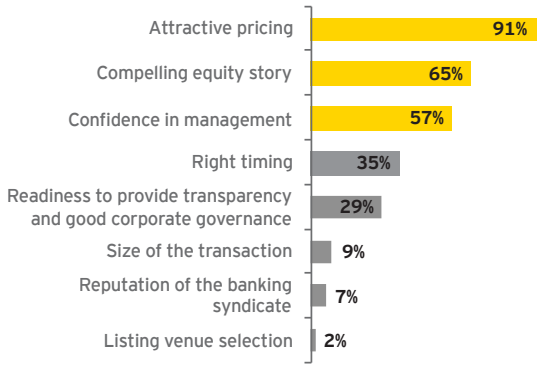
Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

Pre-IPO preparation is critical

Against a backdrop of rising market and investor confidence, institutions cite attractive pricing, a compelling equity story and confidence in management as the top three factors influencing IPO success. Attractive pricing is ranked the top critical success factor across all geographic regions and investor types. Confidence in management is in the top three everywhere except Asia, where it is ranked fourth behind market timing.

Notably, at a global level, price, story and people ranked ahead of "right timing" by a significant margin. Readiness to provide transparency and good corporate governance completes investors' perceptions of the top five critical success factors for IPOs.

Key critical success factors for an IPO



Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

Good-quality companies always get noticed

We know from our experience that for an equity story to be compelling, companies need to provide evidence that the business model has performed well through a downturn and that there is a solid track record of growth, an actionable plan to sustain growth and a clear rationale for how IPO proceeds will be used to fund growth.

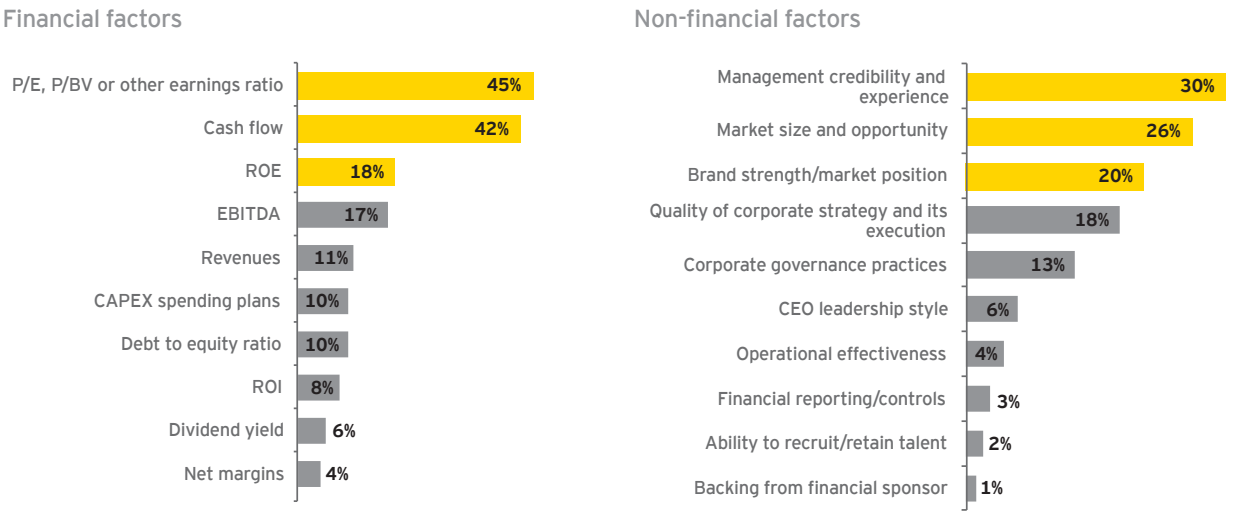
Our survey results suggest that good-quality companies priced right, run by the right team and with a good story to tell will always command the attention of the market, but it does not mean that timing is not an important factor. The window for successful offerings in current market conditions is constantly opening and closing, often quite quickly. Those companies that are well prepared to go public will be able to launch when the window opens up.

Investors focus on a combination of financial and non-financial factors

In deciding which deals to support, investors cite cash flow and valuation based on P/E, P/BV and other earnings ratios as the top two financial criteria by some margin.

Of the non-financial factors, management credibility and experience is considered the most important, followed by market size and opportunity and brand strength. This focus on factors relating to the company's growth potential underlines the importance of strong top-line growth prospects for investors. The low scores for some of the financial criteria also illustrate this point. For example, dividend yield (6%) and net margin (4%) were given little importance by respondents and fell outside the top 10 factors in considering an IPO, suggesting that investors are focusing much more on long-term capital gain rather than a short-term buy and sell strategy. This mix of financial and non-financial factors is consistent with previous Ernst & Young surveys and holds true across all markets and investor types.

Most important factors for investors evaluating an IPO



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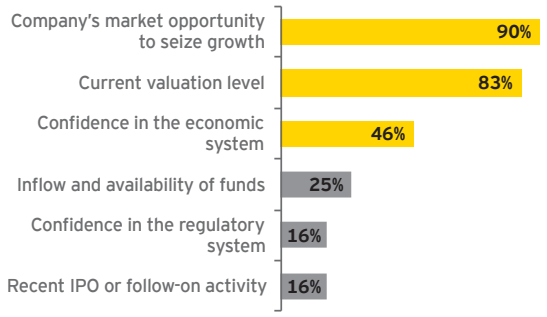
Market opportunity is the top external IPO success factor

In terms of external factors influencing IPO success, the market opportunity to seize growth was seen as overwhelmingly important, with 90% of investors citing this as a top driver underlying their interest and motivation to invest in new listings. It is also clear, however, that in the current market investors remain sensitive to IPO valuations. The second most important driver of interest in new listings was the company's current valuation level (cited by 83% of investors).

Factors that drive investors' interest and motivation to invest in new listings



Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

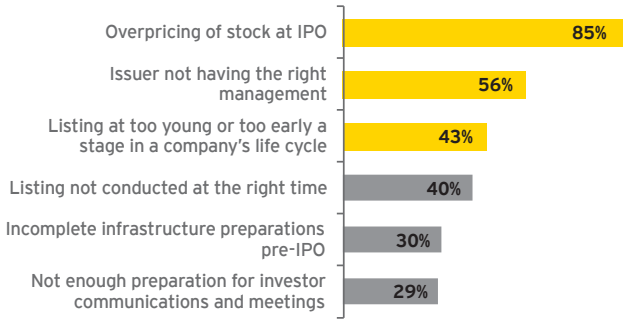
IPO challenges can be managed

Reflecting the importance of launching at the right price with the right team, investors ranked overpricing and having the wrong management team as their top two challenges to IPO success. Going public too early in the life cycle of the business is seen as the third most significant challenge. All investor types consistently cited these top three concerns. But the important message for IPO candidates is that they are all factors that companies can address.

Picking the right point in the life cycle

Many would-be public companies try to speed up their IPO value journey and list before they are ready. The frequent rush to go public is often due to an immediate need for capital, pressure from advisors or the board, or the desire to capitalize on a limited window of opportunity. Unfortunately, such companies are often the same companies whose stock prices decline soon after the IPO. While it may be hard to recover from going out too early because of the risk of disappointing investors in terms of performance, companies that go late can usually meet their fundraising targets longer term via successful follow-on listings.

Key concerns for IPO candidates



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Timing the market

Investors ranked "listing not conducted at the right time" as the fourth most important IPO challenge. If timed correctly, companies may secure an optimal valuation and provide IPO investors with the greatest upside in the months and years after the IPO. Timing considerations include how specific markets are performing, how comparable companies are doing and whether investors are receptive to new issuances in the sector. Other macroeconomic factors such as interest rates, inflation, economic forecasts and even politics can also impact market confidence, so companies need to track changes carefully to anticipate when investors are likely to be receptive to new offerings.

Focusing more closely on how responses varied between investor groups, hedge funds stood out as being more concerned about market timing – which they ranked the second most significant challenge to IPO success. This probably reflects the fact that some hedge fund strategies are more momentum-based compared with a traditional buy-and-hold approach.

Compelling value proposition is a prerequisite

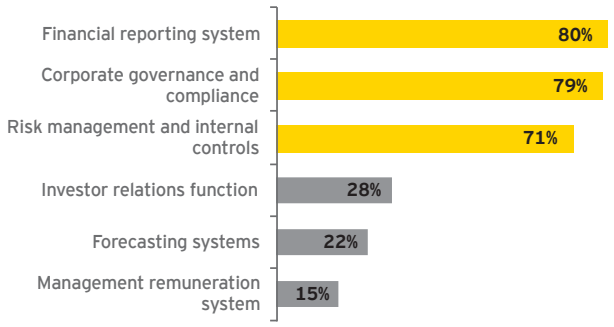
The prominence of management issues and worries that pre-IPO firms are "too young" in their life cycle when they step up to the plate underscore the importance of establishing, and sustaining, a compelling value proposition as prerequisites for an IPO.

There are regional variations within this overall picture. Having the right management team is perceived as critical in China – investors want to see experience and entrepreneurial skills – but overpricing is less of a concern. This in part reflects the high level of valuations in the Chinese market (P/E ratios of 50–60x are not uncommon) and the perception that rapid growth will justify high multiples. Going too early is also less of an issue, with PE and VC sponsors often looking to float as soon as a company meets the regulatory requirements of the chosen exchange (for example with respect to performance track record).

Incomplete infrastructure is a concern

Incomplete infrastructure preparations are often a problem for companies that list too early. Almost a third of investors listed this among their top three key concerns. Investors agree by a wide margin that the most important parts of a company's infrastructure when preparing to go public are strong financial reporting systems, corporate governance and compliance, and risk management and internal controls. These factors rank ahead of forecasting, remuneration and investor relations functions.

Areas of a company's infrastructure that are most important when preparing to go public



Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

"High-performing new public companies are supported by a solid infrastructure. Over 70% of institutional investors agree that investments in financial systems, governance, risk management and internal controls are the top priority."

Jacqueline Kelley | Americas IPO Leader | Ernst & Young

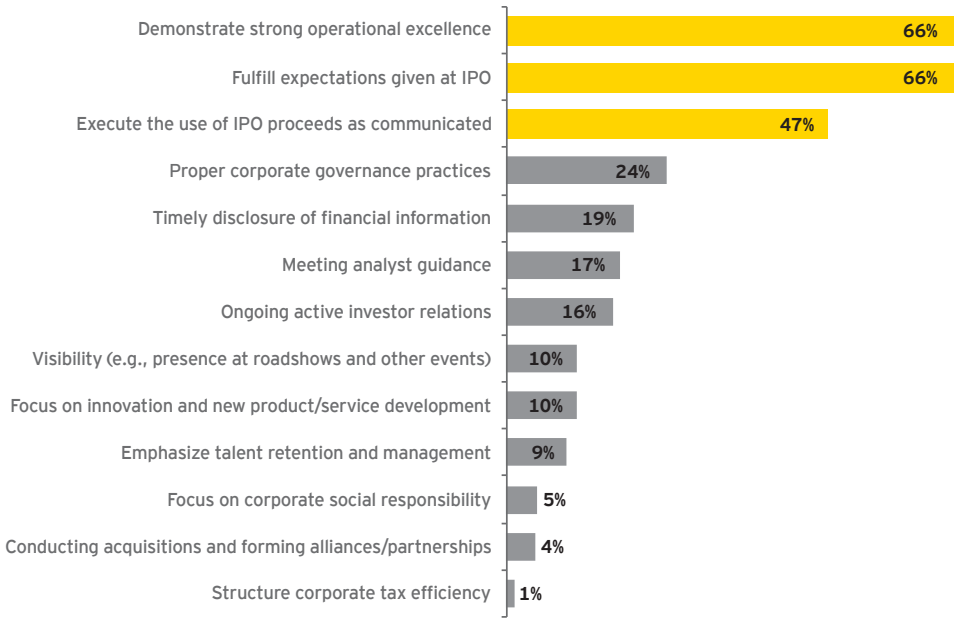
Successful public companies deliver on promises

Investors overwhelmingly view success as a public company as dependent on three factors, which outweigh all others by a considerable margin:

- Strong operational excellence
- Fulfillment of investors' expectations
- Use of IPO proceeds for the purposes the company communicated as part of the IPO plan

Success as a public company is similar in the eyes of investors from all regions and across the vast majority of different investor types. However, one exception to this is that insurance companies include the timely disclosure of financial information in their most important success factors.

Investors' recommendations to companies post-IPO



Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

Investors want quarterly updates

The desire for regular, timely financial information is also clearly visible in the responses to the question of how often investors want to be contacted by company management. Nearly 60% of investors prefer to receive information on a quarterly basis to confirm or reframe expectations. While some established companies have publicly stated that quarterly reporting is too frequent and expensive and while some junior markets have proposed alternatives to three monthly updates, our results demonstrate that investors' preference is very clearly in favor of the established pattern of quarterly reporting.

Reliable and regular reporting requires that companies develop, well in advance, the infrastructure of people, systems, policies and procedures that will enable the production of quarterly and annual reports in compliance with regulations and to meet investors' needs.

Alongside regular reporting, investors also want to be kept informed about special events – particularly strategic shifts, M&A activity, movement of key personnel or innovation in a timely way.

58% **of investors rated quarterly results as one of their top points of contact with a company's management after an IPO**

56% **of investors also expect contact post-IPO when a company undergoes a strategic shift or a M&A transaction**

"Across every territory and type of exchange, investors want good-quality, regular information. It's impossible to predict every event, but if a company delivers bad news or surprises investors it can suffer up to a 50% drop in market value and it can take up to three years to regain credibility in the public market."

Maria Pinelli | Global IPO Leader | Ernst & Young

Appetite for domestic investments dominates

Institutional investors have a clear preference for investing in their home or regional markets, which is expected to persist over the next few years. However, there are notable variations between regions.

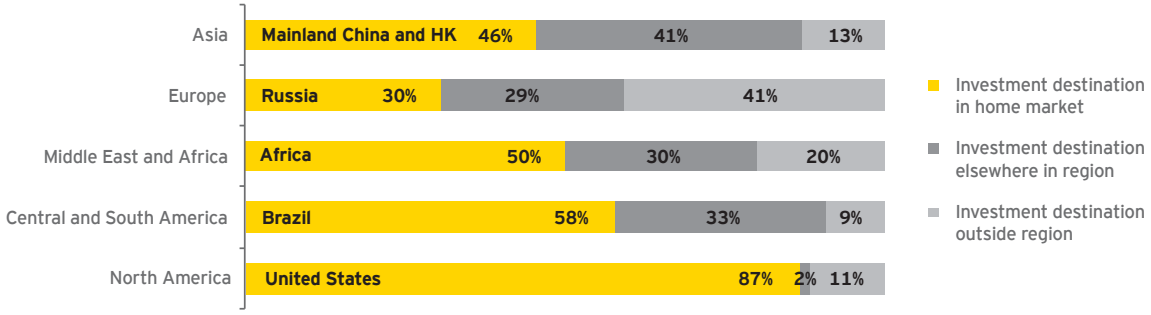
European investors are most inclined to support listings outside their home region. At 41%, the percentage stating a preference to invest overseas is more than double that of investors in the next most adventurous region – the Middle East and Africa. Investors in North America are the most cautious, investing the vast majority (87%) of their funds in domestic listings.

In part these preferences may reflect whether individual fund mandates allow investment in overseas markets, but they also send a clear message that Europe, Africa and, to a lesser extent, Asia are likely to be more receptive regions for companies whose goal is to acquire an internationally diversified investor base as part of their IPO.

Multiple drivers for listing preferences in Asia

While not as pronounced as in the US, investor appetite for domestic issues is also apparent in Asia – 46% of Asian investors rank Mainland China and Hong Kong as their first-choice investment destination, and a further 41% prefer to stay within the region as a whole, leaving very few – just over 13% – interested in investing overseas. This investor support for domestic IPOs helps underpin valuations, promotes liquidity, and is an important factor in why Asian companies are looking to list locally.

Investors' top geographic area to invest in



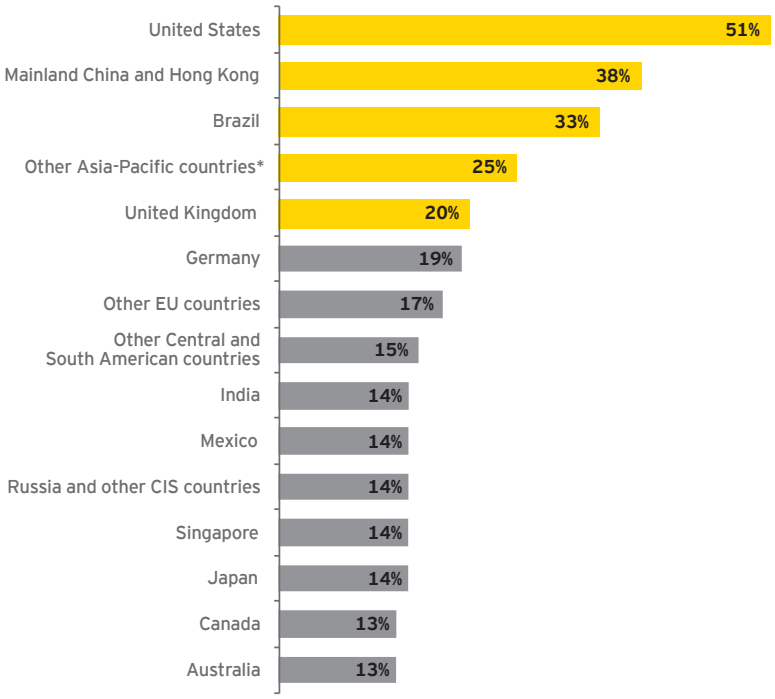
Note: % represents the number of respondents that chose the particular factor.

Investors' top five investment preferences

Investors' top five investment preferences, both current and anticipated, reflect a combination of interest in the established equity capital markets of the US (and to a lesser extent the UK) as well as the pursuit of opportunities offered by rapid-growth markets, particularly among the BRIC nations. The ranking is of course influenced by investors' location and their preference to invest locally.

A majority of investors cite the US among their top five investment destinations, with 25% ranking it number one. The next three favoured destinations are all in the rapid-growth markets: Mainland China and Hong Kong; Brazil; and other Asia-Pacific countries, including Indonesia, Malaysia, South Korea and Vietnam. While these results are a snapshot of current preferences, investors do not anticipate these priorities will change in the next five years.

Investors' most preferred markets to invest in



Note: % represents the number of respondents that chose the particular factor as one of their top five choices.
*Other Asia-Pacific countries includes Indonesia, Malaysia, South Korea and Vietnam.

Right team, right story, right price

Investors' recommendations post-IPO*

66%
Deliver operational excellence

66%
Fulfill expectations

Investor confidence is rising

82%
invested in pre-IPO or IPO stocks in the last 12 months

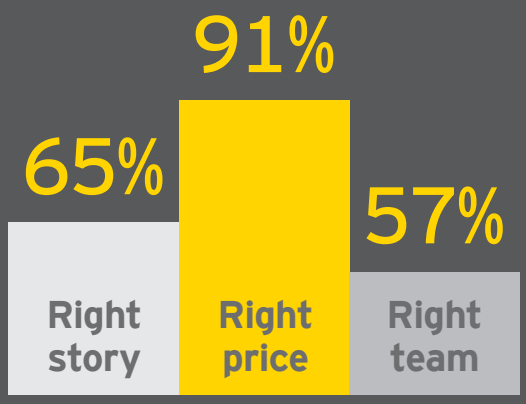
What's driving improving investor sentiment?*

64%
Brighter earnings outlook

52%
More stable macroeconomics

47%
More stable equity markets

IPO critical success factors*



*Featured most often in investors' top three

21%
of investors rate technology as a top sector preference*

43% of those invest from **North America**

Investors
top fi
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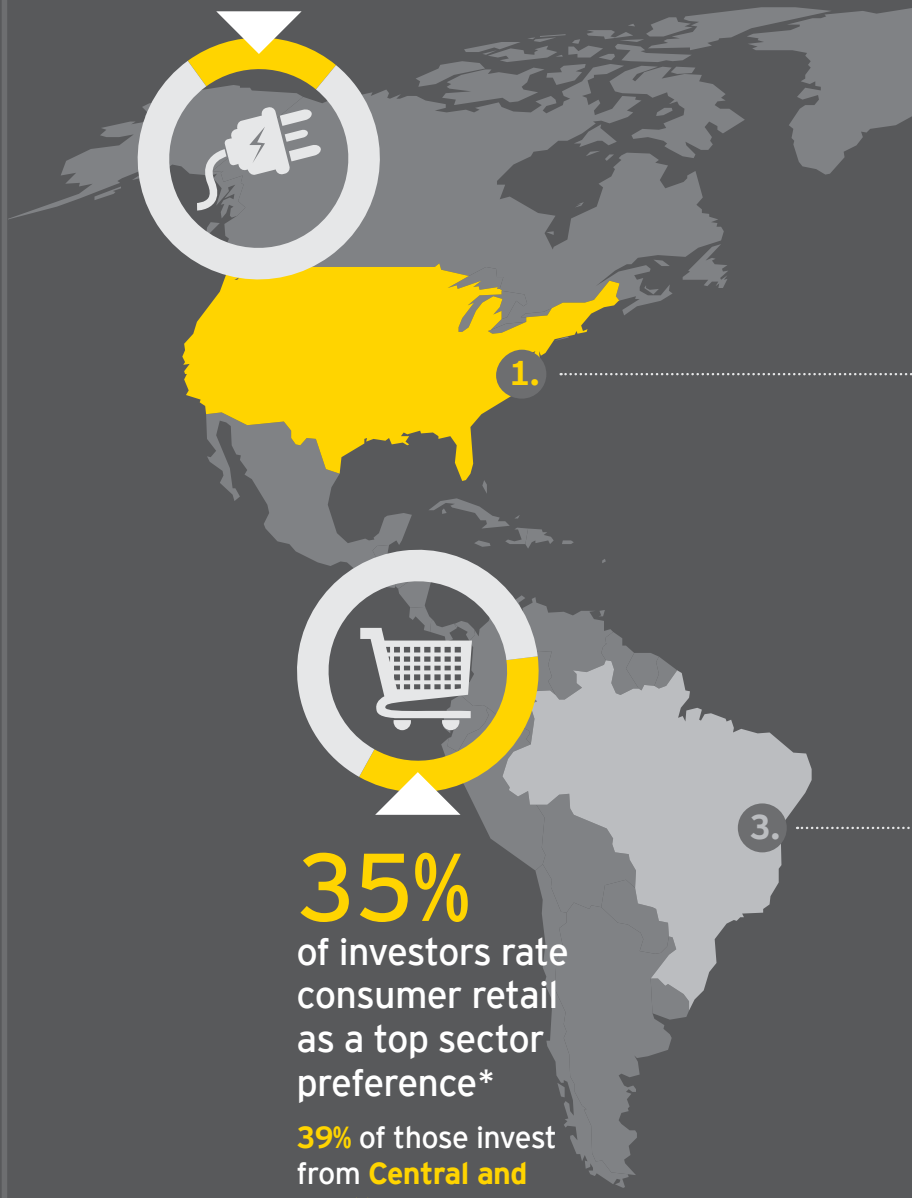


35%
of investors rate consumer retail as a top sector preference*

39% of those invest from **Central and South America**

Investors' worries*

85%
Overpricing

56%
Wrong management

What do investors want?

58%
want information quarterly

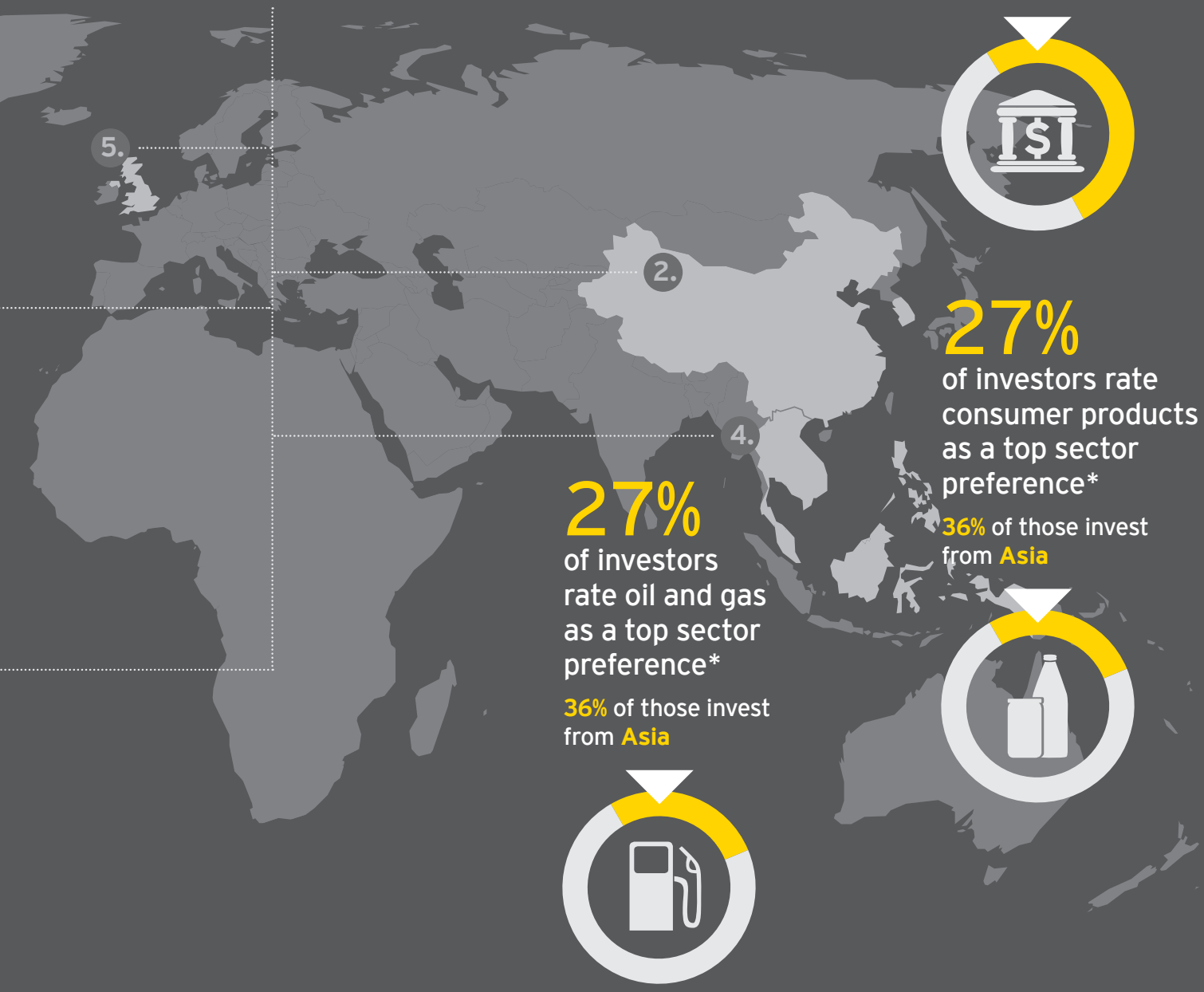
32%
want to be informed about strategic shifts

ve
nt markets

1. United States
2. Mainland China and Hong Kong
3. Brazil
4. Other Asia-Pacific countries
5. United Kingdom

51%
of investors rate financial services as a top sector preference*

36% of those invest from Asia



27%
of investors rate consumer products as a top sector preference*

36% of those invest from Asia

27%
of investors rate oil and gas as a top sector preference*

36% of those invest from Asia

Rapid-growth market IPOs are seen as high risk

Investors perceive rapid-growth market IPOs as both more risky and more expensive. Developing or rapid-growth markets are generally interpreted as large, both in terms of GDP and demographics, and are dynamic, rapidly growing countries of strategic importance for companies' business development.

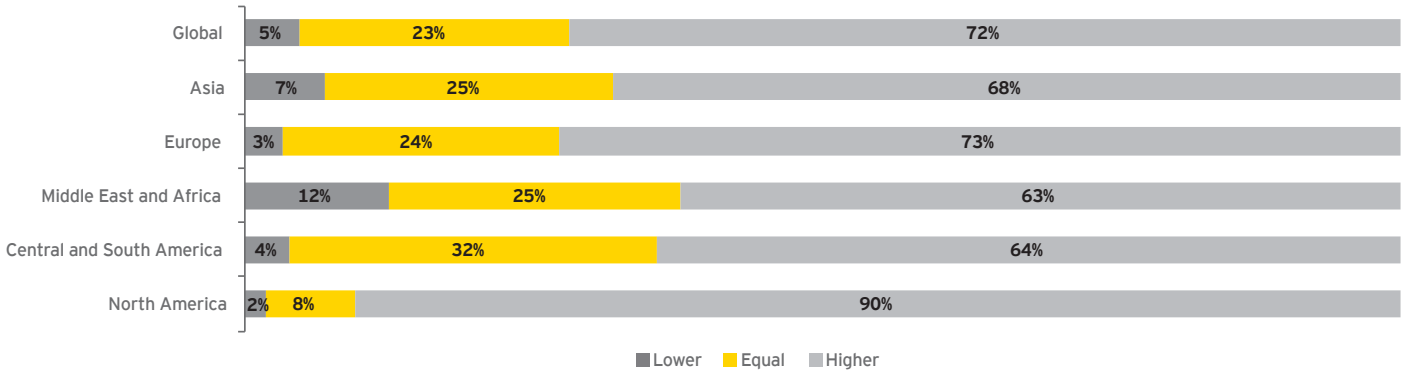
72% **of investors perceive the risk profile of rapid-growth market companies to be higher**

41% **of investors rate valuations of rapid-growth market companies to be more expensive**

This perception of risk is most pronounced in North America, where 90% of investors perceive rapid-growth market IPOs as having a higher risk profile compared with those from mature markets. This is significantly higher than perceptions among investors within the rapid-growth markets themselves, where the comparable results are between 63% and 68%.

IPOs from rapid-growth market companies compared with those from mature markets

Perceived risk profile



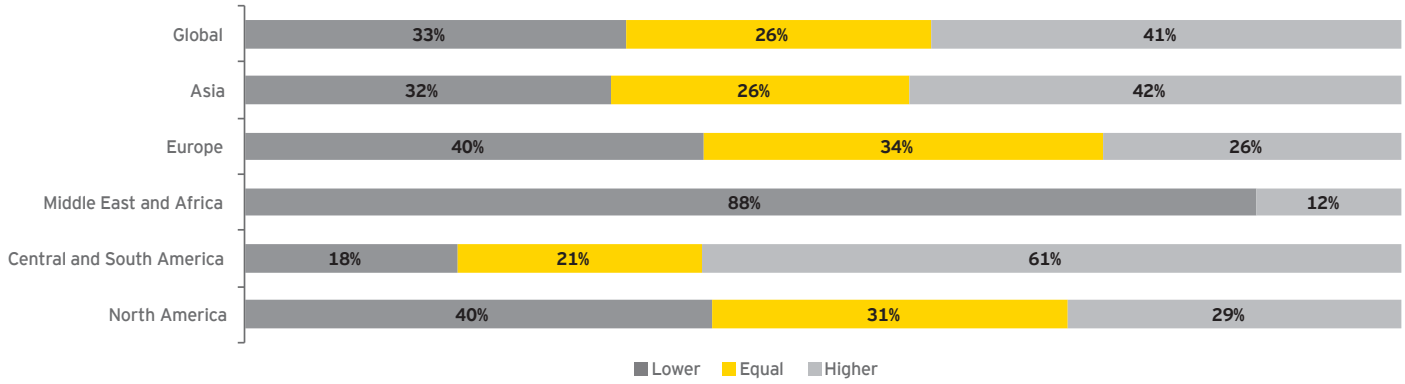
Note: % represents the number of respondents from that region that chose the particular factor.

"Over two-thirds of investors in Asia believe that IPOs in rapid-growth markets are higher risk, but just under half also believe that IPOs will achieve higher valuation multiples when they list in these markets."

Shinichiro Suzuki | Japan IPO Leader | Ernst & Young

IPOs from rapid-growth market companies compared with those from mature markets

Valuation/multipliers (P/E)



Note: % represents the number of respondents from that region that chose the particular factor.

US investors prefer to invest close to home

This risk aversion among US investors is consistent with their pronounced domestic investment bias and their focus on corporate governance concerns. With deep and liquid capital markets at home, US investors may feel less need to take on this additional perceived risk.

Oil and gas, industrials, real estate and construction are seen as the relatively "safe" sectors for IPOs in rapid-growth markets, while technology and mining and metals are perceived as higher risk.

Confidence and liquidity drive choice of exchange

Five years ago, choice of stock exchange was not an issue on investors' radar, but now 53% of investors believe that exchange venue is an important factor when making an investment in an IPO. PE investors attach the most importance to the exchange venue among the different investor types. From a regional perspective, two-thirds of investors in the Middle East and Africa, and 61% in Europe, ranked exchange venue as an important factor in their investment decision.

53% **of investors view choice of exchange as an important part of the investment decision**

"Our results clearly show that, contrary to popular perception, companies do not 'follow the herd' when choosing an exchange. Instead they are focused on finding the highest-quality, most suitable exchange for their business."

Dr. Martin Steinbach | EMEIA IPO Leader | Ernst & Young

Liquidity, confidence and good corporate governance drive exchange choice

Where investors are looking outside their domestic markets, the top three factors driving the importance of an exchange in their investment decisions are available liquidity, confidence in the regulatory environment and high corporate governance standards. There is a marked similarity across regions and investor types. Liquidity considerations are top-of-mind for investors from all regions and across the different investor types. The only notable exception is that banks and mutual funds rank confidence in the regulatory environment above liquidity.

Perhaps surprisingly, "well-known peers are trading at the same venue" is listed as an important factor by only 22% of respondents. Received wisdom is that companies to some extent "follow the herd" and take into consideration where their peers are trading. The survey results, by contrast, show that investors are more concerned about choosing a high-quality venue with high standards of governance than where their competitors are listed.

A fund's own investment rules are the fourth most important factor in choice of overseas exchange. Maximum portfolio weightings for particular regions may be part of a fund's mandate, which could impact its ability to invest in new listings. Practical considerations may also influence an IPO candidate's choice of where to list. Chinese companies, for example, must take foreign exchange restrictions into account when considering an overseas listing.

Corporate governance is the key source of complaints for companies listing overseas

Investors see the most important challenge for companies listing overseas as complaints about corporate governance, followed by a lack of compelling reasons for listing overseas and a lack of management presence in the listing destination.

The extent of investors' focus on governance varies across regions. In North America and Europe, governance complaints rank as the most significant challenge to cross-border listings and are cited by 83% and 84% of investors, respectively. In Asia and the Middle East and Africa, by comparison, governance ranks second and is cited by 64% and 63% of investors, respectively. The greater focus on governance in the developed markets is probably a reflection of those regions' longer history of more stringent accounting standards. Typically, a high level of information on companies is available in the US and Europe, which can make investors averse to offers that do not meet the same standards of transparency. Potential fraudulent activity, for example, is harder to detect in the absence of detailed financial information. In Asia, investors are often less cautious and less fixated on governance, focusing more on the high returns available.

For Asian investors, the lack of compelling reasons to list overseas is ranked as the most important concern, followed by corporate governance complaints second, with the lack of a physical management presence in the listing destination in third place. This highlights the large capital pool and solid valuations for Asian IPOs, which are supportive for listings in the region. Asian investors see little incentive for the Asian companies that they typically invest in to list overseas, because they can tap into abundant capital and achieve good valuations in their home markets, meaning there is little incentive to go elsewhere.

Main issues faced by companies conducting a cross-border IPO

Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

Impact of IPO legislation

New IPO market legislation to reduce the compliance burdens and listing requirements on smaller new public companies, such as the US JOBS Act, is being introduced or explored in some parts of the world. Across all the investors surveyed, 33% feel such measures make IPOs more attractive, but 48% indicated it made no difference.

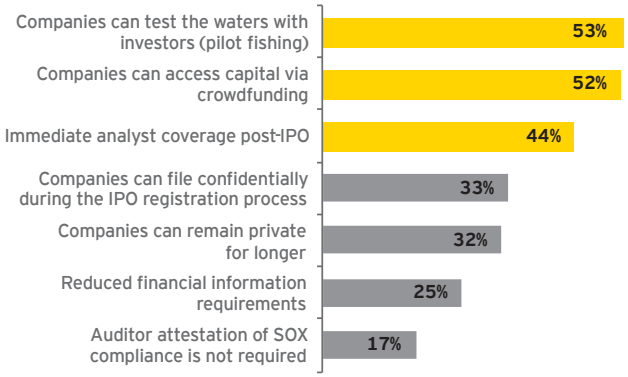
Outside the US, investors are excited by JOBS Act-type legislation. Among European investors, 41% believe the JOBS Act makes investment more attractive, and 39% of Asian investors agree, compared with just 23% of North American investors.

A recent Ernst & Young study of pre-IPO companies in the US, highlights that since the introduction of the Act, 59% of eligible companies have opted to file confidentially. Additionally, it found that 31% have chosen to provide just two years of financial data, with the remainder opting to provide greater disclosure than the JOBS Act requires.

Investors support legislation that helps companies to pre-market or secure crowdsourced equity

Although the trend is at an early stage, institutional investors see solid potential for new legislative support to bolster market access for small- and mid-cap companies. Institutional investors are notably more supportive of any changes that improve companies' ability to pre-market (so-called pilot fishing), changes that improve their access to funding (via crowdfunding), or allow immediate analyst coverage post IPO.

Main benefits of legislation and regulatory changes on IPO activity



Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

Main benefits of legislation and regulatory changes on IPO activity (by region)

	North America	Central and South America	Middle East and Africa	Europe	Asia
Companies can test the waters with investors (pilot fishing)	46%	56%	40%	57%	55%
Companies can access capital via crowdfunding	31%	48%	80%	50%	63%
Immediate analyst coverage post-IPO	49%	60%	60%	33%	40%
Companies can file confidentially during the IPO registration process	37%	32%	20%	27%	35%
Companies can remain private for longer	40%	32%	40%	20%	32%

Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

Investors focus on post-IPO price performance

Almost three-quarters of investors will hold an IPO stock as long as it is performing, rather than for some specified period of time. This result probably reflects the well-established strategy of letting profitable investments run. As a result, rising confidence in the economic environment and IPOs will be important in supporting longer investment durations for institutional investors.

On average

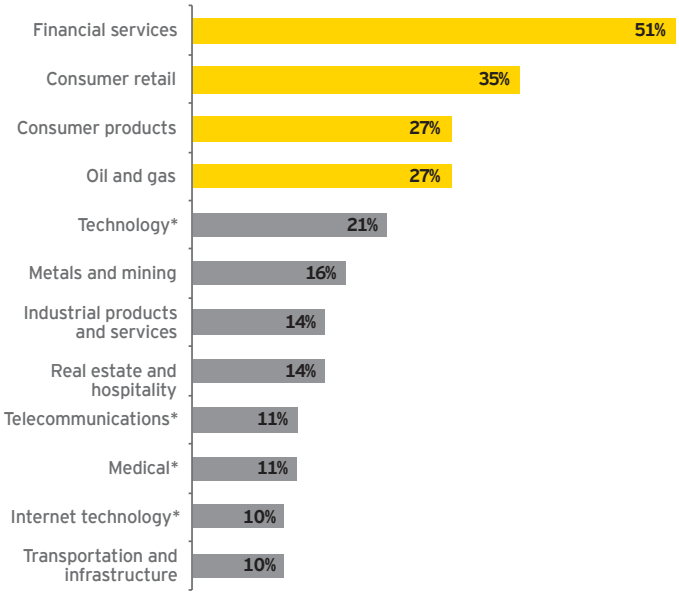
73% **of investors hold IPO stock as long as they are performing**

Investors' focus on post-IPO stock price performance is consistent with the survey finding that attractive pricing is the most important critical success factor for IPOs. Companies must look carefully at the pricing of their IPO – overpriced IPO stocks, which subsequently do not perform, are likely to be sold by investors. We know from our client experience that companies that fail to deliver on their promises are likely to suffer a substantial reduction in share price.

Financial services have universal appeal

Sectors enjoying particularly strong interest include financial services, consumer retail, consumer products, oil and gas and technology, closely followed by metals and mining. The mix is not expected to change significantly in the next five years.

Current investors' portfolio weight by sector



Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

*Technology includes electronics, hardware, semiconductors, services and software. Telecommunications includes services, hardware, communications and networks. Medical includes healthcare, instruments/devices and pharmaceuticals/life science. Internet technology includes e-commerce, online gaming and social networking.

The financial services sector appeals to investors for two main reasons. First, the expanding middle class in emerging economies and the global aging population heading into retirement are driving a surge in demand for financial services products. Second, the sector is seeing a rise in the emergence and take-up of electronic payment services and software supporting the industry as well as a notable rise in innovative services.

Consumer industries are particularly strong in rapid-growth markets, where populations are young and expanding and where incomes are rising. The listings of Prada and Samsonite in Hong Kong, for example, are illustrations of companies with a value proposition that taps into the growing demand for luxury goods among Mainland China's emerging middle classes.

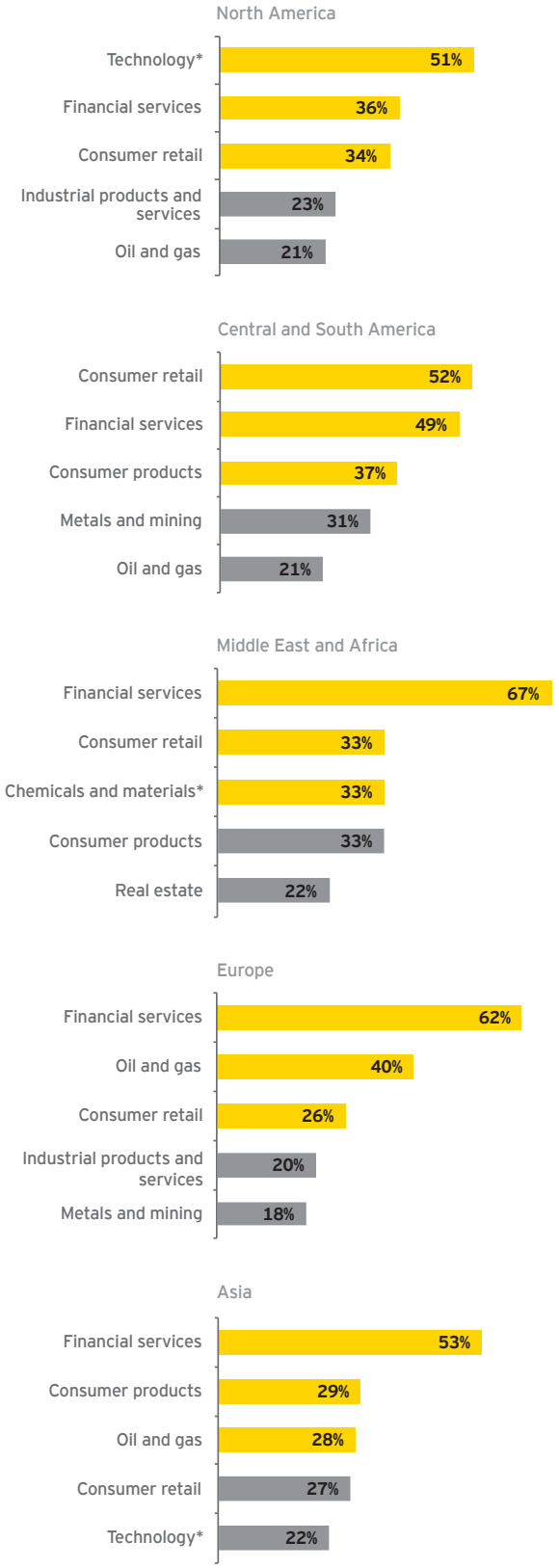
Investors' stated preferences for the next three years show that mining and metals and oil and gas investments will become more popular, which partly reflects gradually improving confidence in macroeconomic conditions and the expectation that rapid-growth countries will continue to build their infrastructure and manufacturing capabilities.

Regional investment preferences persist

There are also distinct regional clusters in sector preferences, which are set to persist. In North America, technology is investors' favorite sector, while in Europe, financial services and oil and gas are the most popular. In Asia and Central and South America, consumer goods and financial services dominate, with the latter due in part to recent IPOs of state-owned banks and insurance firms.

These results in part reflect a combination of domestic market bias and the current sector composition of particular markets. The choices of investors focused on their home market will inevitably be determined by the available set of investment opportunities. Technical factors may also play a part in shaping sector compositions – Hong Kong, for example, has relaxed its listing rules for mining and metals companies, which are no longer required to show a two year track record of financial performance.

Current investors' portfolio weight by sector



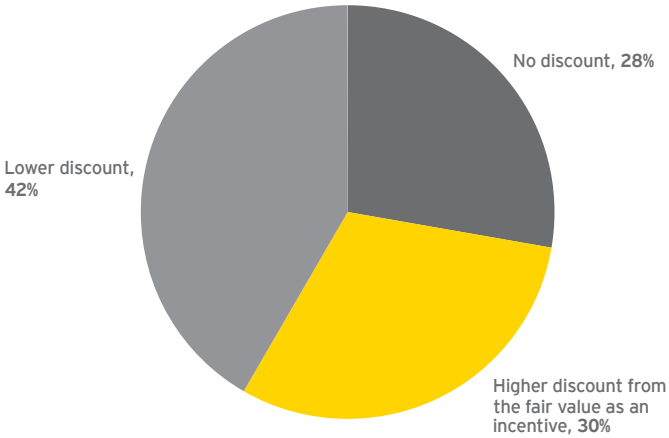
Note: % represents the number of respondents that chose the particular factor as one of their top three choices.

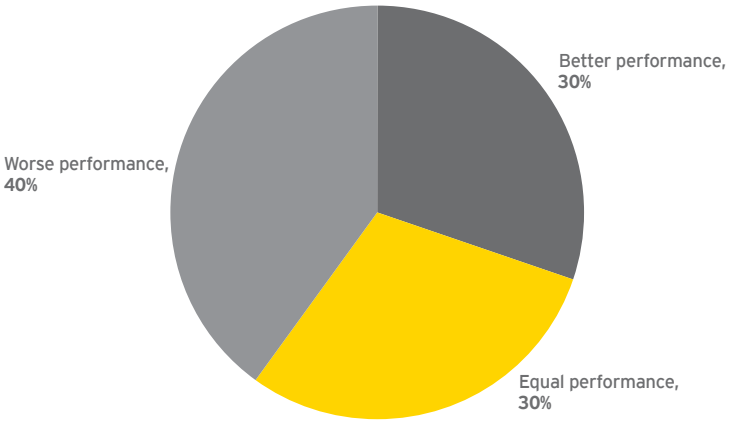
*Technology includes electronics, hardware, semiconductors, services and software. Chemicals and materials includes building, paper and packaging materials.

PE and VC myths

The popular perception that PE- and VC-backed IPOs leave less value on the table for investors appears to be a myth. In fact, investors have varied perceptions on the price of financial sponsor-backed IPOs versus other IPOs. Just over 40% of institutional investors believe that PE/VC-backed IPOs are more expensive. This leaves around 60% who believe there is no discount or that PE/VC-backed IPOs are cheaper, implying higher returns for new investors.

Perceptions of PE/VC-backed IPO pricing and performance compared with non-PE/VC-backed listings





When it comes to post-IPO performance, the results show a broadly similar pattern, with 40% of investors who think that performance of PE/VC-backed IPOs is worse than offerings without financial sponsors. This leaves 60% who believe that performance is either no different or better post-IPO.

Considerable variation in regional perspectives

Investors' views of how offer prices compare between PE/VC-backed IPOs and others vary widely depending on region.

Investors in Asia have the greatest expectation of higher discounts from financial-backed IPOs. Over a third (36%) anticipate that PE/VC will leave value on the table. European investors are not far behind at 35%, followed by those in North America at 31%. In the Middle East and Africa, by contrast, investors are split 50/50 between lower discount and no discount. This means that no respondents investing in this region anticipated better value from PE/VC-backed stocks.

When it comes to post-IPO stock price performance, unsurprisingly, investors in the Middle East and North Africa remain skeptical. Only 14% believe that PE/VC-backed IPO stocks perform better. This is in direct contrast to the investor view in Central and South America, however, where almost half (45%) believe that financially backed IPOs deliver a better performance. Investors in Asia (28%), Europe (25%) and North America (19%) were more moderate in their expectations of superior stock price performance. It is interesting to note the relatively low expectations of investors in North America given the robust PE/VC climate.

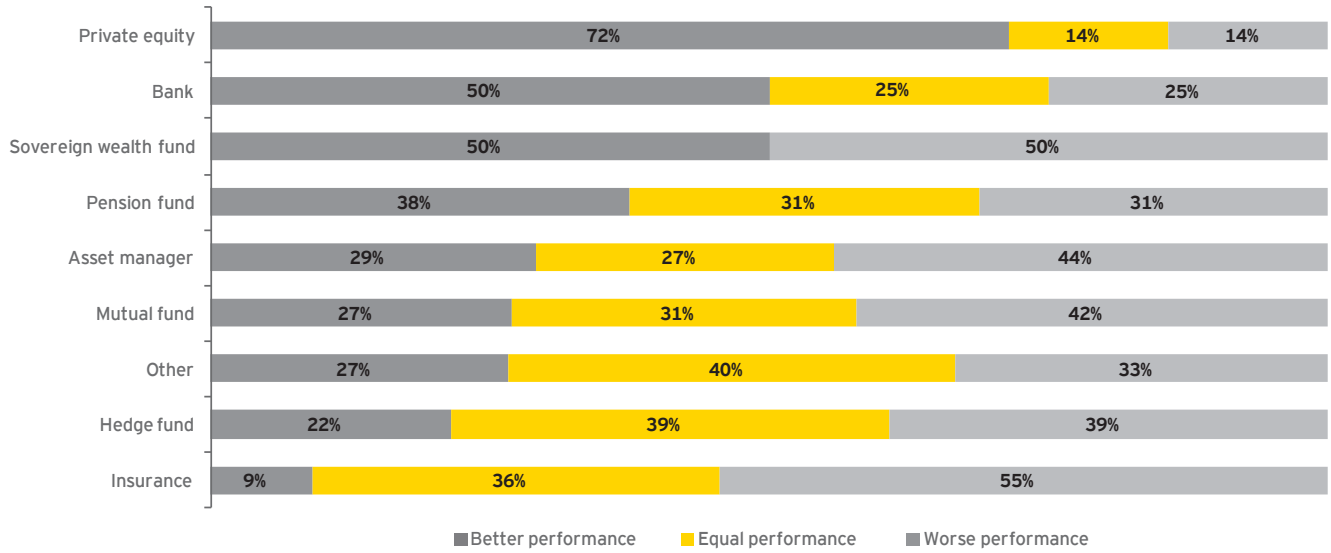
"Differences in regional perceptions regarding the value that PE/VC brings to IPOs are quite startling. Those in Central and South America are overwhelmingly positive – in direct contrast to investors in another rapid-growth region, the Middle East and Africa. In North America, the birthplace of PE and the VC industry, expectations of a better price performance post-listing are alarmingly low."

Maria Pinelli | Global IPO Leader | Ernst & Young

PE talks its own book

Unsurprisingly, among investors, PE believes its own deals offer superior post-IPO performance, while the insurance sector is least enamored of the post-float track record of PE/VC-backed IPOs.

Perceptions of stock performance for PE/VC-backed IPOs compared with non-PE/VC-backed listings



Note: % represents the number of respondents within that type of investment institution that chose the particular factor.

Successful structures provide liquidity

The survey results on successful structures are consistent with the findings on choice of exchange – investors are most concerned about liquidity considerations.

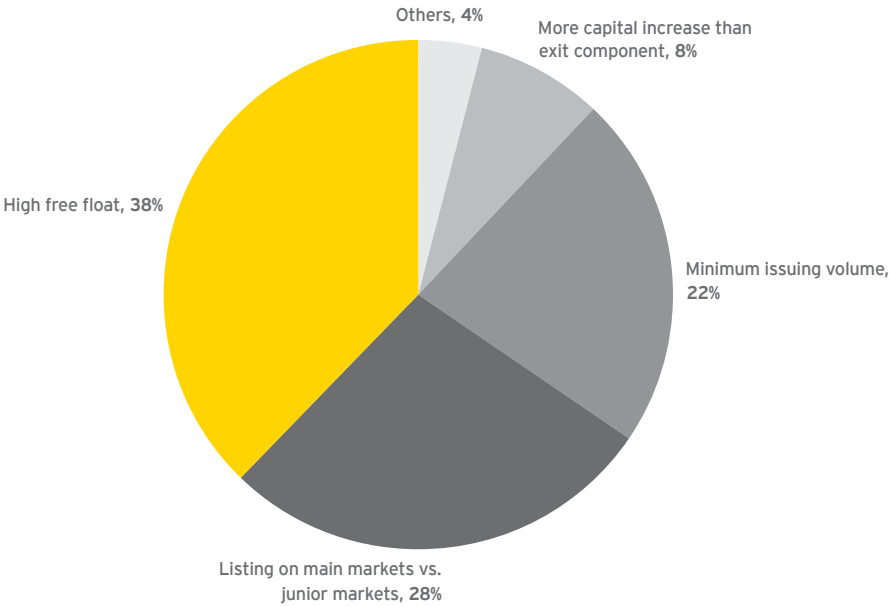
Among those surveyed, 38% of investors recommend a high free float as the ideal structure for a listing, underlining investors' desire for the greater liquidity that goes with having the majority of your stock freely traded on the public market. After a high free float, a significant proportion of investors (28%) recommend a listing on a main rather than a junior market, which, given the greater depth of main markets, can also be interpreted as a liquidity factor.

Among investor types, banks are most in favor of a high free float, while PE is least concerned about this factor.

"IPO candidates need to meet the strong governance and high transparency requirements of the main markets and preferably have enough free float to provide adequate liquidity for investors."

Ringo Choi | Asia-Pacific IPO Leader | Ernst & Young

Investors' recommendations for successful IPO listing structure



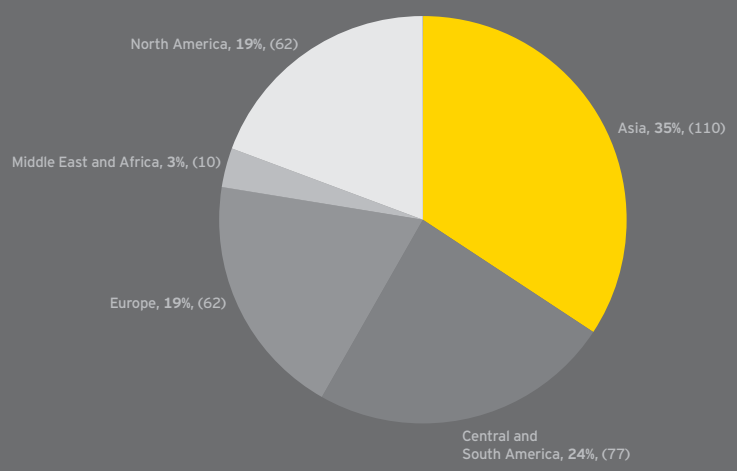
Methodology

In November and December 2012, Ernst & Young conducted an independent online survey of 321 institutional investors from around the world about how they evaluate new equity offerings.

Our goal was to determine what information institutional investors need or use most often, the factors that impact their buy and sell decisions and to which listing criteria they give the most weight.

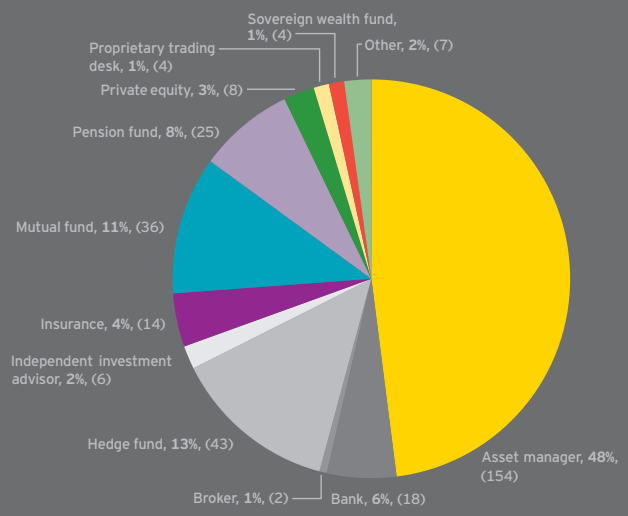
By region

N (total number of respondents) = 321



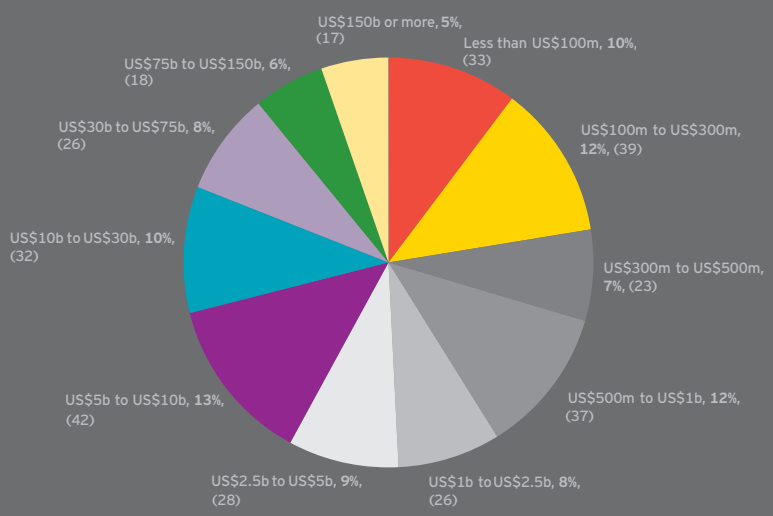
By investor type

N (total number of respondents) = 321



By total amount of assets managed

N (total number of respondents) = 321



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