

# Private Equity, Public Exits

*Private Equity, Public Exits* is published quarterly by Ernst & Young to provide insight and analysis on capital markets trends as they apply to the private equity-backed IPO market.

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## Q2 PE-backed IPOs raise the most since 2007 – 45 sponsored companies go public to raise US\$17.2 billion

PE-backed IPO activity in Q2 continued its upward trend as proceeds reached their highest quarterly total since the second quarter of 2007. In aggregate, 45 PE-backed companies raised US\$17.2b in proceeds, nearly twice the volume of Q1 and up 24% on a value basis. Issuance picked up significantly from Q1 in EMEA and the Asia Pacific regions, where sponsored companies raised US\$2.6b and US\$3.2b, respectively.

Increasing concern about the quality of corporate governance and financial controls for companies based in China challenged performance for companies in the region. Additionally, broader concerns about the debt crisis in Greece increased volatility significantly in the second half of the quarter. Despite these market conditions, sponsored companies that went public in 2011 saw an average first day increase of 10.3%, and closed out Q2 up an average of 8.0% from their offer price. PE-backed deals from 2009 and 2010 remain well in the black – the average IPO from 2009 closed up 17.7% from the offer price, and the average 2010 deal closed up 26.9% from its IPO price.

In addition to IPOs that priced, the second quarter was extremely active for new filings. Eighty-four sponsored companies filed to go public over the last three months. As of 30 June, there are currently 88 PE-backed companies in registration to go public, which could raise more than US\$20b across global exchanges.

While market sentiment could slow the pace of new issuance out of China, the overall global PE pipeline remains healthy as investors continue to move further out of the risk spectrum in search of companies with solid governance and strong growth stories. In 2011 to date, PE backed companies have raised US\$31.1b in 68 separate IPOs, which is on track to exceed the US\$58.3b raised at the 2007 market peak.

Figure 1:  
2011 PE-backed IPOs  
by region (US\$b)

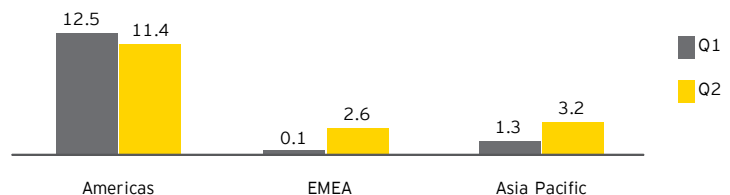


Figure 2: Top IPOs priced Q2 2011

Company	Exchange	Offer date (2011)	Gross proceeds (US\$ millions)	Sponsor
Arcos Dorados Holdings	New York	13-Apr-11	\$ 1,436.7	Capital International Inc; DLJ Merchant Banking Partners
Yandex NV	NASDAQ	23-May-11	\$ 1,434.8	Baring Vostok Capital Partners - BVCP
Samsonite International	Hong Kong	9-Jun-11	\$ 1,250.9	CVC Capital Partners Ltd
Air Lease Corp	New York	18-Apr-11	\$ 922.8	Leonard Green & Partners LP; WL Ross & Co LLC; Ares Management LLC
Freescale Semiconductor	New York	25-May-11	\$ 883.2	The Carlyle Group LLC; The Blackstone Group LP; Permira LTD; TPG Capital LP
Renren	New York	4-May-11	\$ 855.0	General Atlantic LLC; DCM (US)
GSW Immobilien	Frankfurt Prime	13-Apr-11	\$ 675.6	Goldman Sachs Capital Partners; Cerberus Partners LP
Kosmos Energy	New York	10-May-11	\$ 621.3	Warburg Pincus LLC; The Blackstone Group LP
Qualicorp SA	Sao Paulo - Novo Mercado	27-Jun-11	\$ 587.9	The Carlyle Group LLC
Gibson Energy	Toronto	7-Jun-11	\$ 580.0	Riverstone Holdings

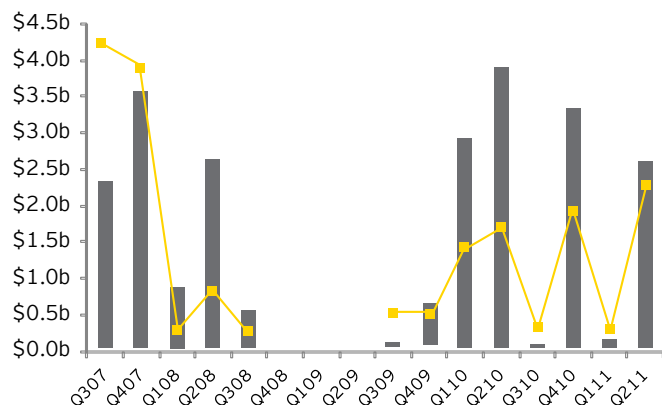
Source: Dealogic, regulatory filings

## EMEA rebounds in Q2 after a weak Q1, but market remains choppy

Activity in Europe rebounded in the second quarter to eight PE-backed offerings from just one in Q1, marking the most PE-backed IPOs since the recession began. Proceeds jumped from US\$104.7m in Q1 to nearly US\$2.6b in Q2, but were down 34% from the US\$3.9b raised during the same period a year ago, when Cinven and BC Partners-backed Amadeus IT Holdings raised more than US\$1.9b in its IPO.

All deals priced within their expected ranges, including the largest EMEA deal of the quarter, Berlin-based GSW Immobilien. The real estate company is backed by Goldman Sachs and Cerberus, and raised US\$675m in an offering that valued the company at more than US\$1.1b.

Figure 3: EMEA sponsored IPOs, last four years



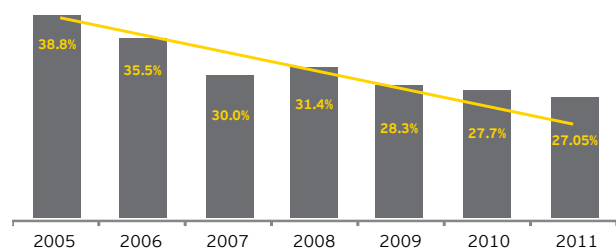
Source: Dealogic

## US sees more deals in Q2, but smaller totals

In the Americas, the second quarter saw none of the PE-backed blockbuster deals that defined the first quarter and drove aggregate proceeds higher. While the value of deals decreased, the number of sponsored IPOs increased substantially as the market broadened and became more accepting of a wider range of deals. Twenty-five sponsored companies raised US\$11.4b in listings in the Americas, up 56% in volume terms from the 16 deals that raised US\$12.5b in the first quarter. Pricing was mixed, with 64% of Americas deals within or above their expected ranges.

One of the most anticipated IPOs of the quarter was LinkedIn's US\$405m offering. The company was one of several that executed "low-float" IPOs that offer an extremely limited stake in the company to the public – in LinkedIn's case, less than 10%. High demand met constrained supply to drive the stock up more than 100% by the end of its first week, gains it held through the end of the quarter despite significant volatility. Floats for PE-backed companies in the Americas have trended lower over the last several years. This year, the average PE-backed company sold just 26.9% of its shares to the public, down from nearly 39% in 2005.

Figure 4: Average PE-backed floats in the Americas have trended lower



Source: Dealogic

## Asia Pacific deals impacted by sell-off in broader market

Sponsored activity on Asia's exchanges grew from 6 deals valued at US\$1.3b in Q1 to 12 deals valued at US\$3.2b in the second quarter. Despite the increase, however, issuance came under pressure midway through the quarter as investors dealt with growing concerns about the effects of looming inflationary pressures on the region's economy, leading many companies in Asia Pacific to postpone or cancel their offerings. China in particular saw 28 deals postponed or withdrawn in Q2. IPOs that did price on Asian exchanges were challenged in secondary trading as investors moved to lock in earlier profits and limit their exposure. Sixty percent of PE-backed listings in China, Singapore and Hong Kong in 2010 closed out the quarter below their IPO price, consistent with overall trends in these markets, where among all IPOs, including sponsored and non-sponsored, two-thirds closed Q2 below their offer price.

Listings by Asia Pacific issuers on US exchanges have been a powerful trend over the last several quarters, and faced significant pressure as well, as US investor enthusiasm for stocks with high growth potential collided with rising caution of the quality of corporate governance and financial controls. Q2 saw an additional three such IPOs, adding to the two that priced in the first quarter. They opened at an average of 33.9% above their offering prices; however, by the end of the quarter, average performance had fallen to 19.5% below offer price. The largest of these was the New York listing of Renren, one of the most popular social networking sites in China. The company, which is backed by General Atlantic and Doll Capital, jumped nearly 40% at opening. It closed out its first day up 28.6%, but subsequently saw its market cap nearly halved.

## PE-backed companies based in the emerging markets see a jump in activity, including four significant Latin American deals and a Russian search engine

Companies based in the emerging markets continue to see elevated activity. In Q2, they raised US\$7.7b across 17 separate deals, the most since the fourth quarter of 2007. Activity was distributed across Latin America, emerging Asia and emerging EMEA and Africa.

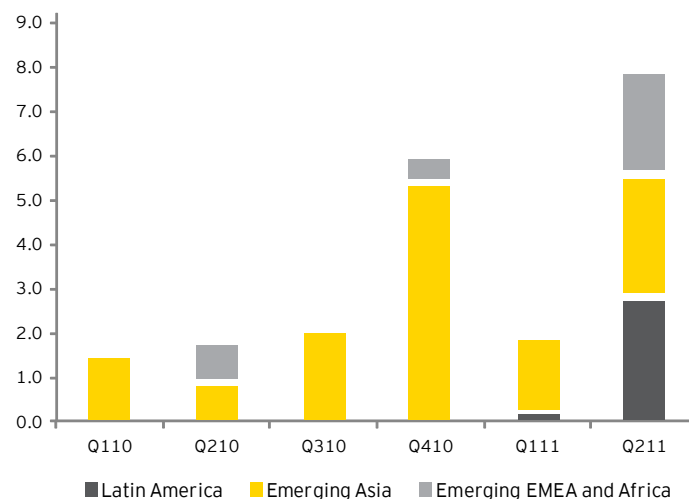
Companies based in Latin America executed four significant IPOs during the quarter, raising US\$3.7b in aggregate. Included was a US\$1.4b offering from Argentinean restaurant operator Arcos Dorados, a US\$588m offering of health insurer Qualicorp, and the US\$566m offering from Brazilian appliance retailer

Magazine Luiza. Qualicorp was acquired by The Carlyle Group in a secondary transaction from General Atlantic Partners in July 2010 for US\$1.2b in Brazil's largest PE transaction of last year.

Latin America wasn't the only IPO hotspot in Q2. Two companies based in Russia raised an aggregate US\$2.0b in proceeds. St. Petersburg-based Etalon Group raised US\$575m issuing shares on the London Stock Exchange. Additionally, internet company Yandex raised US\$1.4b in a listing on the NASDAQ. Yandex, which dominates the internet search market in Russia, is backed by Tiger Global Management and Baring Vostok Capital Partners. The offering priced above range at US\$25, given the company an enterprise valuation of US\$8.0b for the company. The stock jumped 40% at the open of its first day of trading, and closed out the afternoon up more than 55%.

Companies based in China and India raised US\$2.7b across nine deals in the second quarter, a 50% increase in volume and an 80% increase in value over the US\$1.5b raised in six deals in Q1.

**Figure 5:**  
PE-backed issuance by companies headquartered in the emerging markets, 2010–Q2 2011 (in US\$b)

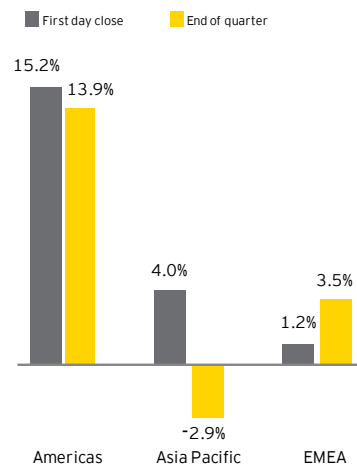


Source: Dealogic

## Performance

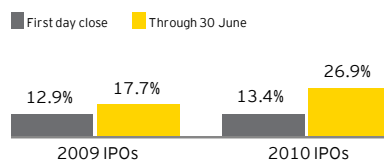
Investor worries about the renewed debt crisis in Greece, and widespread concerns about the pace of the global economic recovery, sent global equities indices lower and challenged post-IPO performance in the second half of the quarter. Sponsored companies that went public in 2011 saw an average first day increase of 10.3% and closed out Q2 up an average of 8.0% from their offer price. Performance was stronger in the Americas, where the average sponsored deal increased 13.9%. EMEA deals increased 3.5%, and sponsored IPOs on Asia Pacific exchanges lost an average of 2.9% through the end of Q2. Through the end of the second quarter, PE-sponsored deals from 2009 and 2010 remained well in the black – the average IPO from 2009 closed up 15.7% from offer price, and the average 2010 deal closed up 23.5% from its IPO price.

Figure 6: 2011 PE-backed IPOs - change from IPO price



Source: Dealogic

Figure 7: 2009 and 2010 PE-backed IPOs



Source: Dealogic

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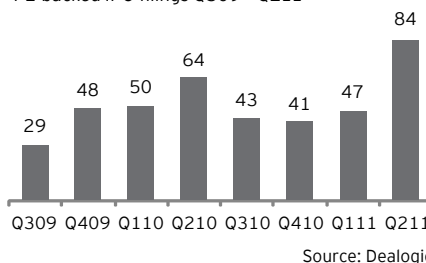
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## Pipeline continues to increase

In addition to IPOs that priced, the second quarter was extremely active for new filings. Eighty-four sponsored companies filed to go public over the last three months. As of 30 June, there are currently 88 PE-backed companies in registration to go public, which could raise more than US\$20b across global exchanges. Among these is Apollo-backed Rextord, which could raise as much as US\$700m. The company was acquired from Carlyle in a secondary transaction in 2007, and delayed plans to list in 2008 as the financial crisis closed down the IPO markets. Also filing in Q2 are two companies backed by Silver Lake – Avaya and Chicago-based Groupon. Avaya was acquired in consortium with TPG in 2007 for more than US\$8b. The IPO could raise as much as US\$1b. Groupon is one of the most anticipated deals of the year and has filed to raise up to US\$750m.

While market sentiment could slow the pace of new issuance out of China, the overall global PE pipeline remains healthy, as investors continue to move further out the risk spectrum in search of companies with solid governance and strong growth stories. In 2011 to date, PE-backed companies have raised US\$31.1b in 68 separate IPOs, which is on track to exceed the US\$58.3b raised at the 2007 market peak.

Figure 8: PE-backed IPO filings Q309 - Q211



Source: Dealogic

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