

2014 vintage IPOs fertile ground for short sellers

2014 was the most active year for IPOs since 2000. However, short sellers profited by targeting the newly listed shares.

- The top 20 most expensive to borrow IPO share have declined by an average of 14.5%
- El Pollo Loco was the most expensive stock to borrow one month after its IPO; its shares have subsequently retreated by over 16%
- The most successful IPO shorts in 2014 were offshore drilling companies: Nordic American Offshore and North American Drilling

Alibaba's \$22bn record breaking IPO last September, propelled the 2014 total for US IPOs to \$85bn, eclipsing the previous year's tally by just under 50%. The year's 273 new listing also provided plenty of scope for short sellers who targeted several of the year's most publicised listings with profitable results.

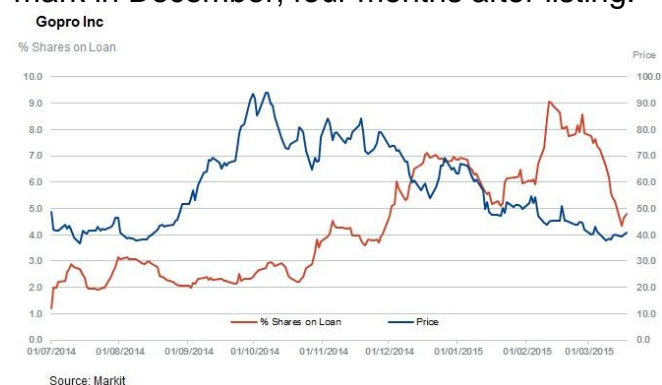
The 20 IPOs in 2014 which were the most expensive to short one month on from their trading debut (as gauged by the Markit indicative fee, a measure of how much a hedge fund would have to pay to keep a short open), have performed significantly worse than other listings. The majority of last year's IPOs remained cheap to short.

Name	Date Priced	Indicative Fee 1 Month after IPO	Price Change (Since 1st month of trading)
El Pollo Loco Holdings Inc	7/25/2014	100.00%	-16.57%
Rewalk Robotics Ltd	9/12/2014	35.00%	-49.10%
Second Sight Medical Products Inc	11/19/2014	14.00%	13.94%
Agile Therapeutics Inc	5/23/2014	11.00%	-9.20%
King Digital Entertainment Plc	3/26/2014	11.00%	-18.79%
Loxo Oncology Inc	8/1/2014	10.00%	-0.36%
T2 Biosystems Inc	8/7/2014	10.00%	-24.99%
Nordic American Offshore Ltd	6/12/2014	10.00%	-60.74%
C1 Financial Inc	8/14/2014	10.00%	-0.17%
Mediowound Ltd	3/20/2014	9.00%	-41.08%
Gopro Inc	6/26/2014	9.00%	-8.97%
North Atlantic Drilling Ltd	1/29/2014	9.00%	-87.14%
Ares Management Unt	5/2/2014	9.00%	-1.76%
Ignity Inc	3/14/2014	8.00%	15.21%
Parnell Pharmaceuticals Holdings Ltd	6/18/2014	8.00%	-29.05%
Spark Energy Inc	7/29/2014	8.00%	-18.85%
Grubhub Inc	4/4/2014	8.00%	41.28%
La Quinta Holdings Inc	4/9/2014	8.00%	40.59%
On Deck Capital Inc	12/17/2014	8.00%	13.51%
Viper Energy Partners Unt	6/18/2014	7.00%	-48.07%

The top 20 most expensive shorts lost an average of 14.5% from one month after the IPO to date. Conversely, the IPOs which cost the least to borrow, gained an average of 14% during the same period.

The cost to borrow reflects the relative demand and conviction that short sellers have in a company's shares declining in future. Focusing on the cost to borrow one month post IPO allows more time for recently listed shares to enter into lending programs and thus become available for short sellers to borrow.

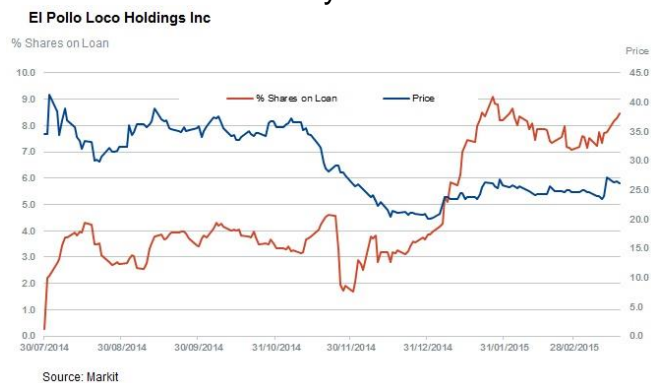
This is evidenced in GoPro, which saw very strong demand to borrow in the immediate aftermath of its IPO but only saw short interest as a percentage of the total shares outstanding break through the significant 5% mark in December, four months after listing.



This absolute amount of shares on loan masks the extremely strong demand to borrow the shares. Short sellers were willing to pay close to 100% of the borrowed value on an annual basis in order to gain short exposure to GoPro shares, which tripled from their offer price. However, GoPro shares have

since gone on to underperform, rewarding the conviction of short sellers, who have recently been covering their positions.

The IPO which cost the most to borrow (after one month from its trading debut) was El Pollo Loco. Short sellers were willing to pay 100% on an annualised basis to gain exposure to the company's shares, which have since retreated by over 16%.



Energy collapse plays to short sellers

The most successful short positions of last year's IPOs were taken in largely unpublicised and arguably ill-fated listings from drilling operators: Nordic American Offshore and North American Drilling.

The former cost short sellers more than 9% to borrow one month on from listing. The recent collapsing oil prices, and the associated cutback in production has sent shares Nordic American Offshore down by 60%.



North American Drilling proved even more profitable for short sellers as its shares are now changing hands for 87% less than they did a month on from its trading debut.

Viper Energy Partners has also made the list of successful IPO short positions as its shares are down by over 48% (one month on from listing).

Baba not significantly shorted

As for the largest listing of the year, Alibaba's shares saw high indicative rates in the first few days of trading, which was significant for a company of its size. But the increase in lendable supply lowered the cost to borrow and the stock has since lost its "special" status in the securities lending market.

The percentage of shares outstanding on loan has slowly crept up as the stock continued to underperform since highs reached in November.



Andrew Laird

Analyst
Markit
Tel: +1 646-312-8990
Email: Andrew.Laird@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.