



## Small-Cap Company IPOs Are Back: One-on-One with Byron Roth, Chairman and CEO of Roth Capital Partners

Today's institutional investors are finding new ideas for investment in small-cap IPOs, says Byron Roth, chairman and CEO of **Roth Capital Partners**, in a recent interview with FactSet Mergerstat. Roth is the co-chair of the April 27 LAVA Investment Capital Conference in Los Angeles ([www.icc.lava.org](http://www.icc.lava.org)), which this year carries the theme: "Growth is back! Financing your company from startup to exit." Roth Capital provides sponsorship to companies with market caps between \$50 million and \$1 billion. In the equity capital markets, it serves the capital-raising needs of small- and micro-cap companies. According to Roth, there is an underserved need for institutional sponsorship of companies that fall into this category.

*Q: Can you describe for us the current state of the small-cap IPO market today -- and Roth's role in the market space?*

A – Roth: Since 2003, we have experienced an increase in demand from a broader group of institutional investors interested in small-cap IPOs. Of the 79 IPOs that went to market in 2003, 30 – or 38% – were offerings with market caps of under \$250 million. Of the 215 IPOs that went to market in 2004, 90 – or 41.9% – were in the under \$250 million market-cap category. Although it's too early to predict 2005, it appears that the trend is continuing.

Small-cap IPOs are increasing because institutional investors are looking for new ideas. For several years, PIPEs provided institutions their entry point into small caps. As the PIPE market heated up over the past two years, the good ideas had already accessed the equity capital markets and new opportunities became scarce. So it was logical that investors turned to small-cap IPOs for new investment ideas.

We experienced the same trend at Roth Capital. In 2003 and 2004, Roth Capital completed 64 PIPE transactions which raised over \$900 million. As the universe of good ideas got picked over, we went back to our roots and turned to small-cap IPOs. In the fourth quarter of 2004, we were lead manager on two IPOs,



**Byron Roth** was appointed Chairman of Roth Capital Partners in 1998, and has served as CEO since 1997, President since 1993, and Director of Corporate Finance since 1992. Mr. Roth currently serves on the Board of Directors as well as the Executive Committee for the University of California, Irvine Graduate School of Management. Mr. Roth is also on the Board of Directors of the Orange County Chapter of TechNET. Mr. Roth earned his undergraduate degree from the University of San Diego and his MBA from the Johnson Graduate School of Management at Cornell University.

and both were for companies with market caps of under \$100 million. In addition, we were co-manager for an IPO in the third quarter for a \$130 million market-cap company and in January 2005, a co-manager for an IPO with a \$300 million market cap. In total, for 2004 Roth Capital completed 62 equity capital markets offerings, raising \$1.5 billion, all for small cap companies.

*Q: What are the material differences between the environment and players in the small cap IPO market today versus that of four or five years ago?*

A: One clear difference in both the environment and players today is that investors have become market-cap agnostic. Most of the ideas in the larger market-cap categories have been discovered, so investors are looking to earlier stage companies for the next great investment opportunity. Our institutional clients are asking Roth Capital to show them good ideas, regardless of the market cap. They are interested in securing ownership in good companies that have a potential for growth and for making money on their investments.

Over the last two years, a lot of money has been flowing into the small cap category. This summer, **Russell** reportedly will be introducing a new micro-cap index, which will be a benchmark for portfolio managers for stocks in the \$60 million to \$500 million market cap category. This new benchmark is needed to track the superior portfolio returns that investors have had in this space.

*Q: Now that many feel confident in the M&A market again, how is that affecting conditions in the small-cap IPO market?*

A: Historically, a healthy M&A market has coincided with a healthy new issue market. 2004 was a strong year for M&A, and the IPO statistics cited earlier confirm that it was a strong year for small-cap IPOs as well — almost 42% of the total number of 2004 IPOs. In addition to stimulating IPO activity, small and micro-cap companies that were in sectors with increased M&A activity also experienced higher trading multiples.