



## **IPOX IPO Index Products**

**Josef A. Schuster, IPOX Schuster LLC, December 2004**

# Introduction

- About us
  - Team specialized in Financial Products Design related to IPOs
  - View IPOs as a unique equity sector and promote the concept of “IPO Indexing” and “Average IPO Investing”
  - Academic expertise in International IPO Markets
  - Develop Indexes which truly reflect the performance of this sector

Confidentiality Disclaimer Applies

[www.ipoxschuster.com](http://www.ipoxschuster.com)

# Summary of the Presentation

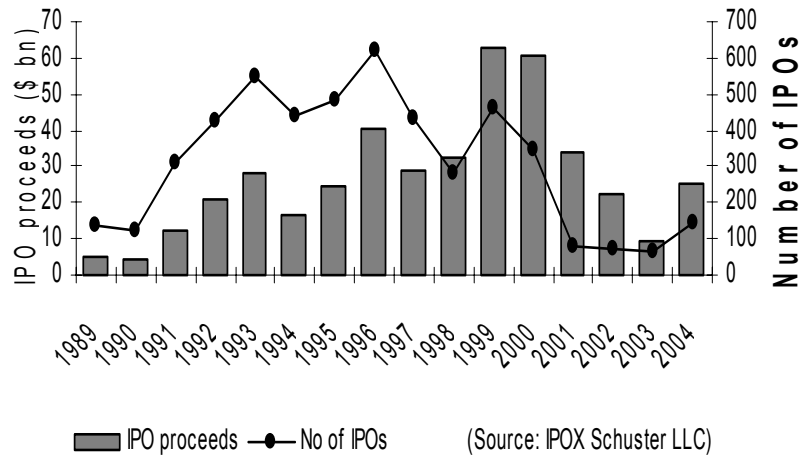
- I. Current Developments on the IPO market
- II. Why are IPOs unique? The academic perspective
- III. IPOX Index Products:  
Index Methodology and Economic Significance
  - a) The IPOX-Composite Index
  - b) The IPOX-100 and IPOX-30 Index
- IV. IPOX Indexes Analytics
- V. Opportunities with IPOX Products
- VI. Review and Outlook

# I. Current Developments

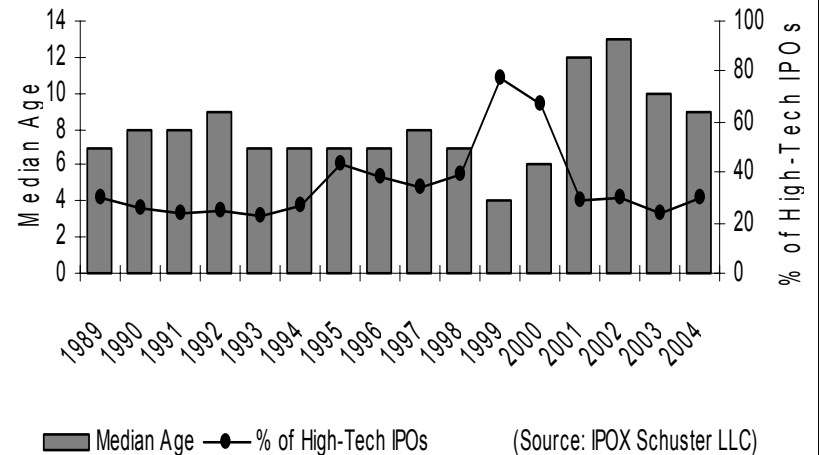
- US Markets
  - Impact of Sarbanes-Oxley
  - Characteristics of US IPOs
  - Increasing age and operating history of IPOs
  - Performance of IPOs
  - Long-run viability of US IPO market
- International Markets

# I. Current Developments

**Table 1: U.S. IPO Activity (1989-2004)**



**Table 2: Characteristics of U.S. IPOs (1989-2004)**



# I. Current Developments

- Recent Chicago Area IPOs:
  - Financial Services: CME, Archipelago
  - Technology: Navteq, Orbitz
  - Others: Sirva, ADESA
- ‘Going Public’ Plans: Financial Services (CBOT etc.)

## II. Why are IPOs unique?

- **Empirical Patterns associated with IPOs**
  - Underpricing
  - Cycles in Issuing Activity
  - Dynamics in aftermarket performance
    - Short-run return dynamics (empirical evidence)
    - Long-run return dynamics (empirical evidence)
- **View IPOs as a separate equity sector**
- **Effects of ‘going public’**

### **III. The IPOX IPO Index Products**

- Calculated and partially maintained by S&P and available real-time on Reuters, Bloomberg, etc.
- IPOX<sup>®</sup> IPO Index Products patent pending
- IPOX Composite Index (Base Index)
- Sub-Indexes: IPOX-30 and IPOX-100
- Rules-based Methodology



# III. The IPOX-Composite Index

- Properties of the IPOX-Composite
  - Value-Weighted All Cap Momentum Index
  - Companies enter on their seventh trading day and exit 1000 trading days thereafter
  - Meets CFTC/SEC criteria (broad-based index)
  - Index a true reflection of industry trends, equity capital markets trends and innovativeness of US economy

### III. The IPOX-Composite Index

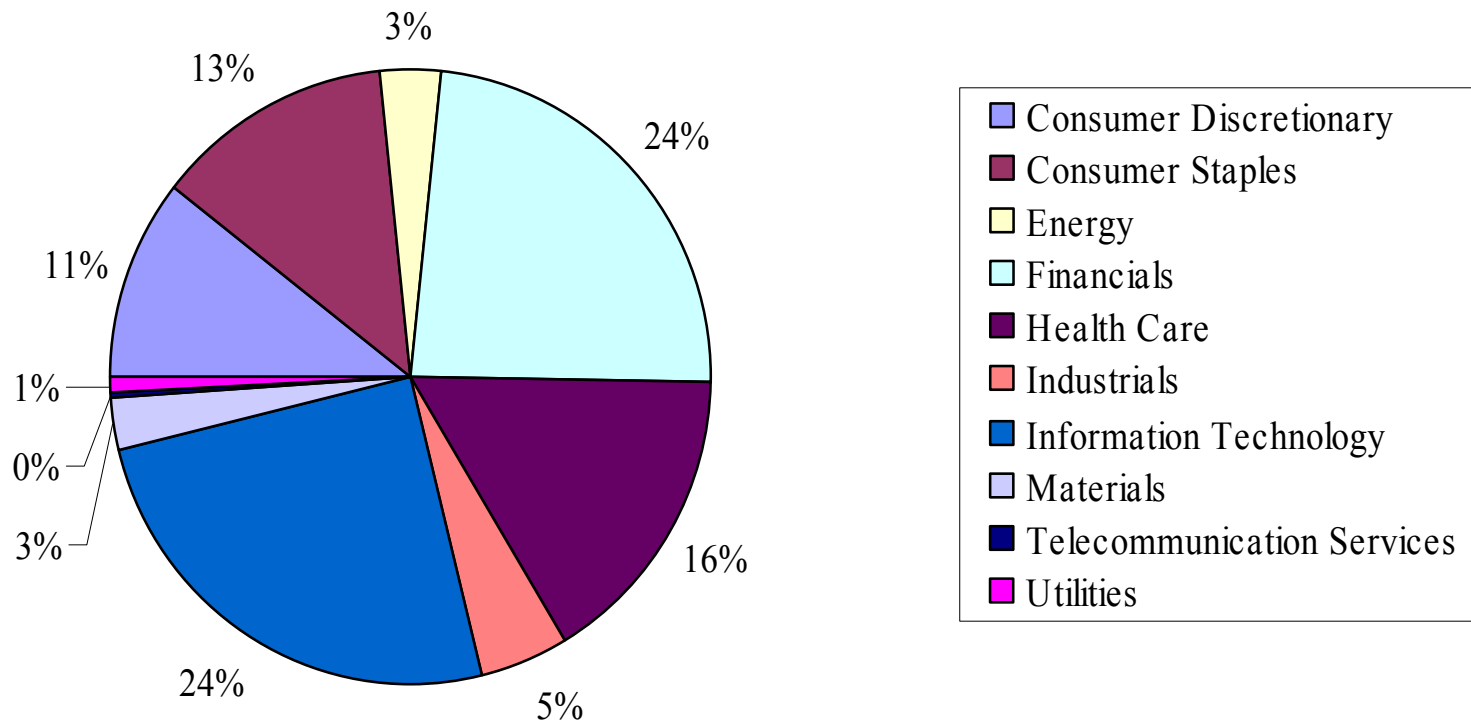
- Economic significance
  - Total Market Capitalization: \$540bn
  - Average Trading Volume: 5% - 15% of total US trading volume
  - Average # shares traded: 190 million
  - Well-known constituents: KFT, GOOG, PRU, UPOX, JBLU, ISG, CME, WTW, TPX, WYNN, CIT

# III. The IPOX-Composite Index

- Properties
  - Captures total U.S. IPO activity
  - Dynamic Reconstitution, initial screens
  - Average, rather than median IPO exposure
  - Index sector composition based on average IPO profile
  - Broad diversification into growth/value sectors
  - Covers IPO companies earlier than other indexes
  - Base for the IPOX size-indexes (IPOX-100, IPOX-30)

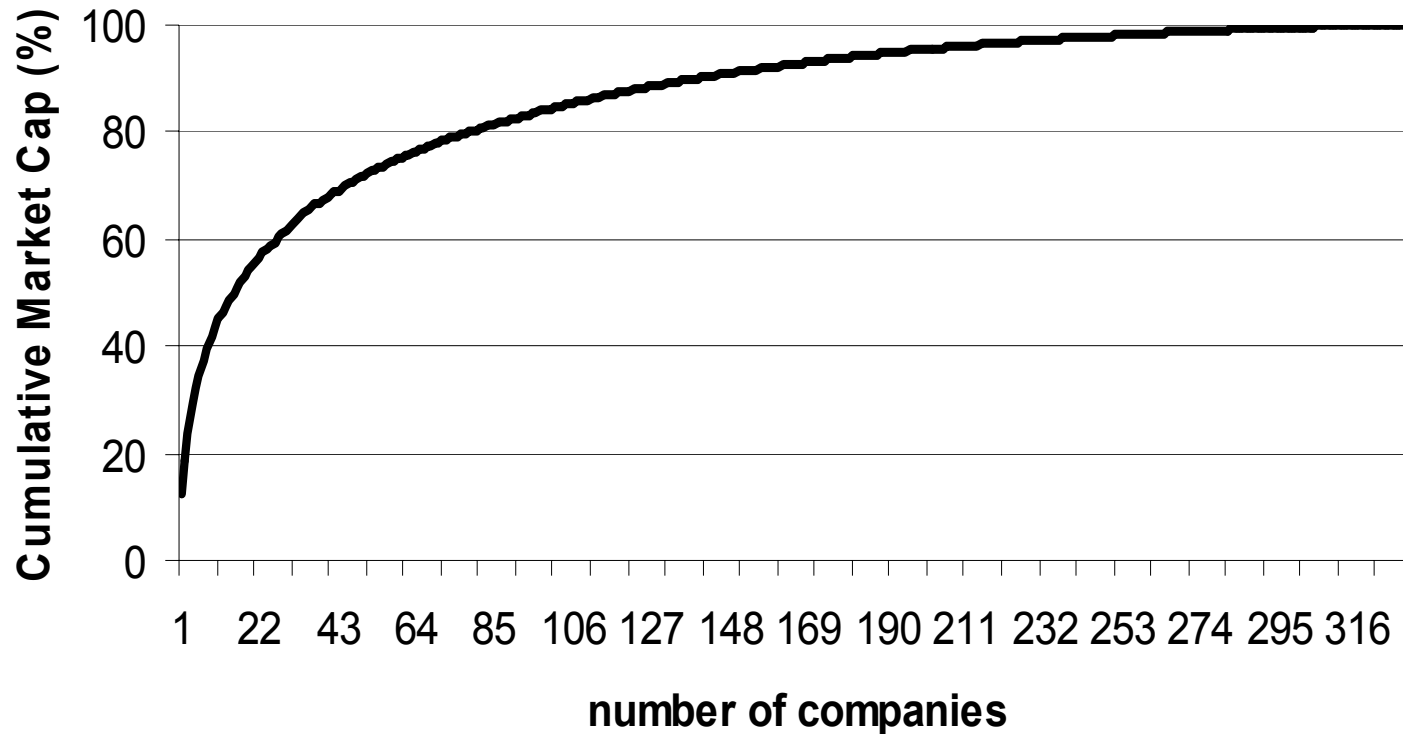
# III. The IPOX-Composite Index

Figure 1: IPOX Composite Sector Breakdown



# III. The IPOX-Composite Index

## IPOX-Composite - Cumulative Market Cap

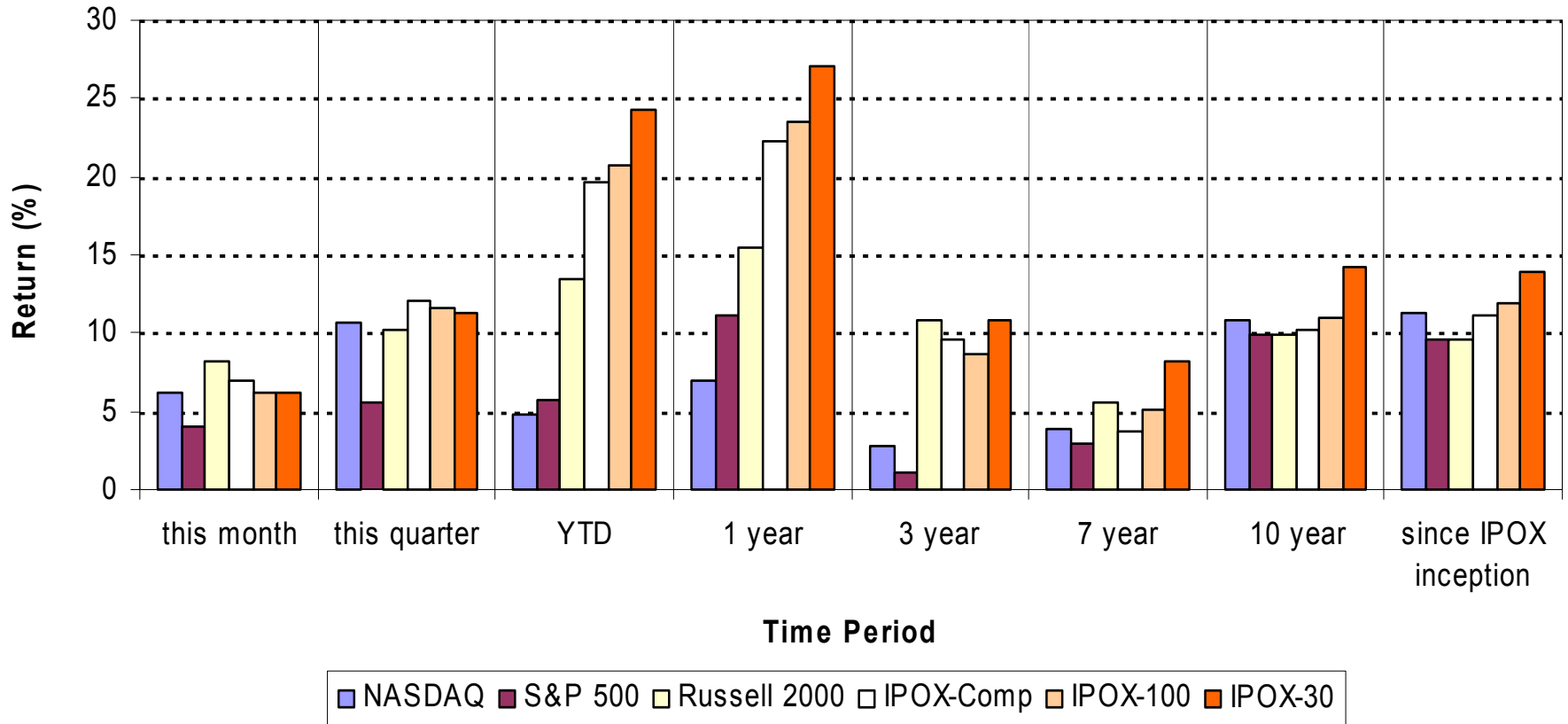


## **III. The IPOX-100 and IPOX-30 Index**

- Properties
  - Captures Top-100 (30) IPOs in the IPOX-Composite
  - Focus on the largest and best performing IPOs
  - Indexes with Quarterly Reconstitution
  - Component weights capped at 10%
  - Maintain CFTC diversification rules
  - Highly Liquid Index Components
  - Index turnover

# IV. IPOX Index Analytics

Figure 3: IPOX-Indexes Comparative Performance Chart



## IV. IPOX Index Analytics

Table 3: Comparative Correlation Matrix (past 12 months)

	<b>IPXC</b>	<b>IPXO</b>	<b>IPXT</b>	<b>INDU</b>	<b>SPX</b>	<b>RTY</b>	<b>CCMP</b>	<b>NDX</b>
<b>IPXC</b>		<b>0.979</b>	<b>0.914</b>	<b>0.426</b>	<b>0.859</b>	<b>0.905</b>	<b>0.574</b>	<b>0.728</b>
<b>IPXO</b>			<b>0.976</b>	<b>0.309</b>	<b>0.795</b>	<b>0.819</b>	<b>0.420</b>	<b>0.617</b>
<b>IPXT</b>				<b>0.148</b>	<b>0.677</b>	<b>0.685</b>	<b>0.227</b>	<b>0.460</b>
<b>INDU</b>					<b>0.802</b>	<b>0.702</b>	<b>0.807</b>	<b>0.732</b>
<b>SPX</b>						<b>0.938</b>	<b>0.762</b>	<b>0.836</b>
<b>RTY</b>							<b>0.819</b>	<b>0.878</b>
<b>CCMP</b>								<b>0.948</b>
<b>NDX</b>								

*Source: Bloomberg Analytics*



## **V. Opportunities with IPOX Products**

- IPOX Index Product for various market participants
  - Buy-and-hold return investor
  - Active Index Investor (performance enhancement)
  - Intra- and Inter-Spread Trading Community
  - Sophisticated Basket Traders
- Global appeal

## VI. Review and Outlook

- Effects of ‘going public’
- IPOs as a separate equity sector
- Introduce the concept of IPO Indexing
- Exposure into growth and innovativeness of the US economy via IPOX<sup>®</sup> Indexes
- Outlook: Sustainability of US and worldwide IPO Activity in 2005 with IPO sector outperformance