

Stock market decline takes shine off 2011 IPOs

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This was supposed to be the year of the IPO comeback.

Six months into 2011, the market for initial public offerings was stronger than before the recession. The number of companies looking to raise money through new stock offerings was on pace for a decade high. Shares of companies that had gone public earlier in the year, on average, had posted gains.

But after that strong start, the market for new stock offerings fizzled in 2011 as the prospect of a global slowdown and a prolonged European debt crisis battered financial markets. High-profile Internet companies like Groupon, LinkedIn and Zynga — which went public Friday — attracted attention. But overall, companies didn't raise as much as they hoped for through IPOs. Main Street investors, who generally don't have access to IPO shares until after they start trading, were likely the biggest losers.

Daniel Graeber, a journalist and professor from Grand Rapids, Mich., bought 15 shares of Groupon for \$30 each the day it went public, hoping the deals company would be the next Google Inc. or Amazon.com Inc. He's lost money so far, but the 38-year-old said he's modestly optimistic that shares will recover.

"The only way to have played the game this year — the way I always play it — is to have flipped on day one. Take your profit and move on. People who haven't have been decimated," said long-time IPO investor Scott Sweet, who owns IPO Boutique. Sweet bought IPO shares of many big companies like daily deals site Groupon and career networking site LinkedIn and sold them on their first trading day.

It wasn't a bad strategy. Groupon, which debuted in November, rose 31 percent on its first trading day, but has dropped 12 percent since. LinkedIn more than doubled in its debut. While it's still up about 50 percent from its offering price, the stock has lost 30 percent from its first trading day. In June, Internet radio company Pandora Media Inc. rose 9 percent. On Friday it closed at \$10.55, a 34 percent slide from its IPO price. Stock in technology companies that went public in the past 12 months have fallen 15 percent, according to Renaissance Capital. Some of that stems from broader market declines. The Standard & Poor's 500 index is down about 8 percent from the end of June.

Many companies hedged their bets. Sixty-six companies withdrew plans to raise money through new stock offerings in 2011, a 27 percent rise from the previous year, and the biggest number since the depths of the recession in 2008, according to IPO Investment firm Renaissance Capital. Stocks of many of the companies that took the plunge haven't fared well. About two-thirds of companies that went public this year are trading below their offering price, according to advisory firm IPO Boutique. As a group, IPOs that went public this year lost 13 percent of their value

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— the first negative return since 2008.

Some of those themes were apparent this week, the last before the IPO market shuts down for the year in the U.S. Twelve companies had lined up IPOs. If all of them had begun trading, it would have marked the busiest week for IPOs since November 2007. That didn't happen. Three of the companies, information technology services provider FusionStorm Global Inc., industrial materials maker GSE Holding Inc. and chemicals and metals maker Luxfer Holdings PLC, postponed their offerings.

There were some successes. Jive Software Inc., a company that is trying to become a corporate networking version of Facebook, and luxury clothing and accessories company Michael Kors Holdings Ltd. priced higher and sold more shares than expected. Both soared on their first trading day.

And then there were the mixed successes. Zynga Inc., which specializes in making games for social networking website Facebook, raised \$1 billion, in the biggest Internet IPO since Google's 2004 launch. The offering price of \$10 per share values the company at about \$7 billion — at least \$13 billion less than some market watchers predicted back in July when the company filed to go public. The shares fell 50 cents, or 5 percent, to close Friday at \$9.50.

Six other companies that debuted this week raised less money than they expected. Stock in two of those companies, oil and gas companies Bonanza Creek Energy Inc. and Sanchez Energy Corp., are already 20 percent and 16 percent below their IPO prices, respectively.

Market watchers expect more big technology deals next year including Facebook, reviews site Yelp and online retailer Gilt Groupe. Of the three, only Yelp has filed to go public. But the global economic uncertainty may force the 200 companies hoping to go public in 2012 to temper their expectations. LinkedIn and Groupon, for example, sold less than 10 percent of their outstanding stock in their IPOs, which is considered a small percentage of overall shares to sale in an offering. The small supply helps create demand.

"If they want to get the company public, they'll do a smaller deal," said Frank Maturo, head of cash equity capital markets at Bank of America Merrill Lynch.

The IPO declines and weak stock markets may create an opportunity for investors to buy shares more cheaply as companies and bankers rethink prices for shares.

"People haven't made money in the IPO market, people are skeptical. But deals can get done if they get priced right," said Francis Gaskins, an analyst at IPOdesktop.

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