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ABREAST OF THE MARKET | May 12, 2013, 8:30 p.m. ET

IPOs Set to Raise Most Cash Since Crisis

U.S. Firms Have Raised \$16.8 Billion in 2013, on Pace for Best Year Since 2007

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By [TELIS DEMOS](#) and [MATT JARZEMSKY](#)

U.S. companies are on track to raise the most money through initial public offerings since before the financial crisis, driven by the same thirst for risk among investors that has pushed the stock market to new highs.

Already this year, 64 U.S.-listed public offerings have raised \$16.8 billion, according to Dealogic. In the same period in 2012, the biggest year in dollars since the financial crisis, 73 companies



U.S. companies are on track to raise the most money through initial public offerings since before the financial crisis, driven by the same thirst for risk among investors that has pushed the stock market to new highs. Telis Demos reports on MoneyBeat. Photo: AP.



raised a total of \$13.1 billion. Last week alone brought 11 U.S.-listed IPOs, making it the busiest week for such deals since December 2007.

A more robust IPO market is seen as a potential boon for the economy because it allows companies to raise money that can be used to reduce debt or invest in their businesses. Sellers of stock such as private-equity or venture-capital firms can trim or shed their current holdings, return money to their investors, such as pension funds, and turn their attention to new investments.

Behind this year's pace is an ebbing of the wild price swings that had been a dominant feature of the stock market since the financial crisis, according to investors, companies and bankers. Instead, stocks have been on a steady grind higher. As markets reach new records, investors are taking chances on shares of new public companies.

"I think you're seeing a really good kind of stable sweet spot," said Jim O'Donnell, chief investment officer at San Francisco-based Forward Management, which manages \$6.8 billion in assets and which has been buying shares of real-estate funds and technology firms coming to market.

A return of stock-market volatility could quickly slam shut the IPO window, as could a crisis or unexpected event. In 2011, a rating downgrade on U.S. credit and the European financial crisis closed the IPO market for a time after it got off to an even faster start than this year, and for a period last year the botched IPO of [Facebook Inc.](#)

[FB +1.51%](#) had a similar effect. A significant portion of the recent stock gains have

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been driven by the fact that in the current low-interest-rate environment, many investors see few alternatives to stocks.

"It's definitely still not like when just anybody could file a prospectus and launch a deal," said Richard Truesdell, co-head of the global capital markets group at law firm Davis Polk & Wardwell LLP.

So far this year, larger IPOs have been among the best performers. The largest 25 IPOs this year have risen on average 22% from their initial prices, according to Dealogic, versus a 15% gain for the Standard & Poor's 500-stock index since the beginning of the year.

For example, construction-materials maker [Boise Cascade Co.](#) BCC -0.33% is up 43% from its debut earlier this year; child-care provider [Bright Horizons Family Solutions Inc.](#) BFAM -1.91% is up 54%; and [Zoetis Inc.](#), ZTS -0.39% a maker of medicines and vaccines for animals, is up 28%.

In April, theme-park operator [SeaWorld Entertainment Inc.](#) SEAS +3.10% and its owner [Blackstone Group LP](#) BX +1.59% sold \$807 million of stock in an IPO in which the stock priced at the top of its projected range. More shares were sold than originally planned. Even then, the stock jumped 24% in its first day of trading, and now is up 30% from its initial price.

For some investors and companies, this spate could be the beginning of a virtuous cycle: As more deals find eager buyers, their success spurs more companies to go public.

There are several large deals in the pipeline, including HD Supply Holdings Inc., an industrial distributor, which has filed with the Securities and Exchange Commission to raise \$1 billion. Votorantim Cimentos SA, a Brazilian cement company, has filed plans to raise \$5.4 billion in the U.S.

"Success begets success," said Joe Reece, global head of equity capital markets at [Credit Suisse Group](#) CSGN.VX -0.84% AG. "Many IPOs have been priced appropriately and traded well in the aftermarket; that has given investors an opportunity to make money."



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In turn, "that allows them to take a little more risk in the future," he said.

Many of the successful deals this year have also been companies promising high dividends relative to their earnings and share prices. This is an attractive proposition in a low-interest-rate environment.

That includes real-estate investment trusts, or REITs, such as [CyrusOne Inc.](#), [CONE +0.09%](#) which rents out data centers. It offered a dividend yield, or per-share income as a percentage of its share price, of 3.4% at its initial price. The stock has risen 19% since its IPO, bringing its yield to 2.8%. REITs pay out most of their income to investors to avoid corporate income taxes.

The average yield on stocks in the S&P 500 index is 2%, according to FactSet, compared with a 1.9% yield for 10-year Treasury notes.

The IPO market remains far from its peak in the 1990s, when sometimes 400 companies or more would list in a year, including many startup tech companies. Still, 2013 shows signs of being the steadiest year since the financial crisis, with a number of large companies pricing strongly and jumping in price after their debuts.

"This is the busiest market we've seen in the last 10 years," said Hank Erbe, head of equity origination and syndicate at Fidelity Capital Markets.

Among the factors propelling initial offerings this year, market participants say, is that investors are putting significant money back to work in the stock market. U.S.-based long-term stock funds had taken in an estimated \$73 billion in new money through April, the biggest inflow by that point in the year since 2007, according to figures from the Investment Company Institute.

Meanwhile, stock-picking portfolio managers are turning to the IPO market as a way to get blocks of stock at a discount to the valuations of already public companies.

"A lot of things have run up in this market, which really provides that natural appetite to find an opportunity to pick up a new name," said Jeff Morris, head of U.S. equities at [Standard Life Investments](#), [SL.LN -0.12%](#) which oversees \$272.6 billion in assets and invests in some IPOs.

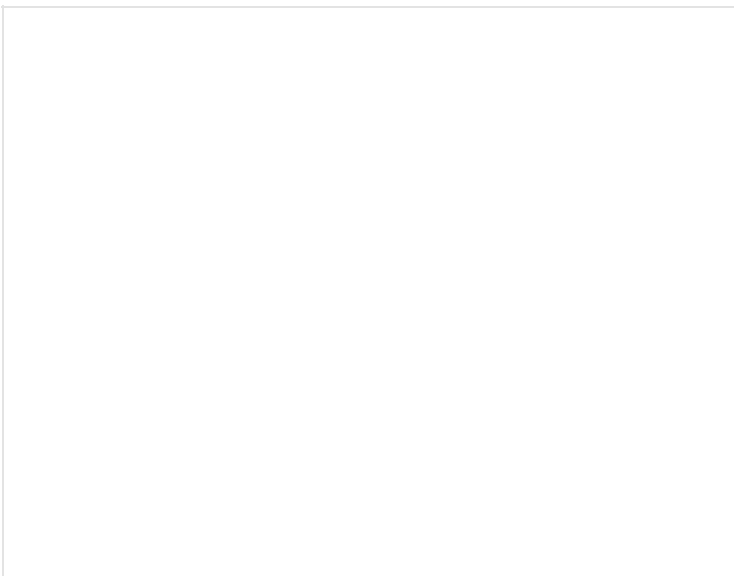


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Companies also are launching IPOs at prices that appeal to investors. This year, only 29% of U.S. IPOs have sold shares below their proposed price range, the lowest percentage since 2007, according to Dealogic.

In addition, more deals are rising from the IPO price. While 19% of IPOs have fallen in their first day of trading this year, that is down from an average of 31% from 2008 to 2012.

If an investor had bought shares in every IPO raising more than \$25 million in 2013, they would be up 15% so far this year, according to Dealogic, matching a 15% gain if they had owned the Russell 3000, which includes large- and small-cap companies, since the beginning of the year.

Yet some find reason to worry.

Many investors have met disappointment in the past when newly public companies' shares have fallen after the firms failed to meet growth expectations. Also, many firms have complained that life as a public company has proved more difficult and costly than they had expected, due to thin trading markets and regulatory requirements.

Also, stronger pricing by companies sometimes can limit the gains that IPO investors are able to harvest once a stock begins trading.

"We're seeing less opportunity for IPO investors to realize strong risk-adjusted returns," said James Krapfel, IPO analyst at [Morningstar](#) Inc. MORN +1.41%

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