Global IPOs hit record in face of credit crunch

October, November saw the heaviest equity issuance of year. Upcoming Visa IPO, other deals point to new record in '08.

By Matthew Quinn
December 10, 2007 12:01 AM ET

Steven Freeman

SHIPPING VIEWS Michael Bodouroglou, CFO of Greek company Paragon Shipping, chose to do Paragon's IPO in the U.S., rather than Britain or Singapore, in part because of the liquidity available via Nasdaq.

Even as the credit markets seized up in the second half, corporations were still able to float equity—and plenty of it—helping the global IPO market raise a record $275 billion by the end of November.

The record-setting numbers, courtesy of Thomson Financial, demonstrate that corporations are hungry for capital to expand and investors still have a healthy appetite for new stock, good news heading into the economic uncertainty surrounding 2008.

While debt offerings sat on the shelves, October and November were the biggest issuance months this year in terms of capital raised through equity offerings, with 317 deals raising $82.4 billion, Thomson data show.

Greek shipping company Paragon Shipping, for one, was not deterred from tapping the public market in August, a traditionally slow issuance month made even more difficult by credit concerns. The company had originally planned to list on Nasdaq in May or June, but was held up by regulatory hurdles in the United States.

“The market was different in August—the credit crunch just started showing its teeth,” said Michael Bodouroglou, chairman and CEO of Paragon. “We felt we had covered a lot of ground regarding the prospectus and were ready to launch. We felt that the fundamentals of the shipping industry were strong and were hoping investors would verify this by investing despite the trajectory of the market.”

The company’s stock ultimately priced at the low end of its target range, at $16 a share, raising over $160 million. It’s up 32% since its first day of trading on Aug. 10.

Paragon’s listing on Nasdaq intersects with what has been a hot-button issue in the five years since the Sarbanes-Oxley Act was passed: the competitiveness of U.S. capital markets in attracting public listings from abroad. (See the SarBOX, this page.)

Just last week, the Committee on Capital Markets Regulation, directed by Harvard professor Hal Scott and composed of various CEOs and academics, found that none of the 20 largest global IPOs were done in the U.S. this year, compared with one in 2006.

Mr. Bodouroglou said the fact that Nasdaq offered a large, liquid market and a number of analysts covering the shipping industry outweighed the less stringent regulatory environments provided by the London Stock Exchange and the Singapore Exchange, both of which Paragon also considered.

“I’d certainly hope they would ease the regulatory environment in the U.S.,” he said. “But the market also has to be credible or it wouldn’t have the [liquidity and analyst coverage] advantages. It’s a fine balance.”

And while other exchanges throughout the world are gaining market share as they mature and the companies seeking to raise capital via IPO are increasingly outside the U.S., domestic exchanges, most prominently Nasdaq and NYSE Euronext, still offer an attractive venue for raising capital. Indeed, data from Thomson showed that year to date, IPOs by foreign issuers raised a record $14.7 billion on U.S. exchanges. The 52 foreign issuer offerings represented more than a quarter of all IPOs in the U.S. market, the highest percentage ever.

There is no doubt that foreign-based companies are the driving force in the IPO market. Chinese companies raised $46.9 billion through IPOs so far this year, the most among all countries. U.S. companies came in second with $41.8 billion, followed by Brazil and Russia, with $27.2 billion and $18.5 billion, respectively.

Despite ongoing concerns about the U.S. economy and others, next year could set a new record for IPOs. Credit card company Visa is hoping to raise $10 billion through an IPO in 2008, and a number of Indian energy companies are looking to go public, Rich Peterson, director of capital markets at Thomson, said during a presentation last week. There are also expected to be a number of corporate spin-offs and breakups, including that of Barry Diller’s IAC, which plans to split into five publicly traded companies sometime next year.

One area that experienced a decline in IPOs in 2007 and could continue to be a drag on issuance in 2008 is the number of private equity exits through IPOs. In 2007, there were 38 private equity-backed IPOs, raising total proceeds of $9.3 billion, representing almost 14% of all IPO proceeds, according to data from Securities Data Co. and Ernst & Young. That’s down from the 66 PE-backed IPOs floated in 2006, which represented 34% of total proceeds. Given the flurry of buyout activity in recent years and the expectation that holding periods on those investments are expected to increase significantly, it’s uncertain when that volume will return to the market.

“What we’re seeing is a temporary slowdown in the marketplace for private equity firms exiting via IPO, because valuations are less,” said John Vester, a partner in Ernst & Young’s transaction advisory services group. “Private equity firms are very disciplined in the way they exit their investments. IPO exits will probably continue to slow until [their investments] hit their expected valuation levels.” **FW**