IPO or trade sale?

ANTHONY DAVIES

Ask why the M&A market has been fairly thin for the year to date, the answer you'll probably get is: initial public offerings (IPOs).

To date, there have been five IPOs seeking a combined $420 million. Another six, chasing $400 million, are in the pipeline.

Steve Greenwood, a partner at Cameron & Co, believes one reason is private equity players wanting to exit see IPOs as a better option than trade sales. He expects the balance will tip back towards trade sales before too long.

"Trade sales normally should get a higher price than IPOs, except in 'hot markets'. IPOs are generally priced too cheaply," he says. He reckons the discount is generally 10%-15% but can be as high as 40%-60%.

Robert Bogers, head of corporate finance at ABN AMRO, also reckons trade sales can often get better results. "Ultimately, trade is simple. There's not so much risk associated with it. A committed trade buyer and process typically wins," he says. However, where there's a weak trade buyer, the market will win.

But, ultimately, it's the seller's decision, he says.

"In many cases you need to test both the IPO market and the trade market. Having both capabilities in one house means you're not biased one way," he says.

In addition, work involved with each approach overlaps, he adds.

He also scotches any suggestion there can be a conflict of interest through pulling together an IPO and then getting involved in distribution/underwriting.

At the end of the day, the objective is to get the deal away, he says.

Dave Belcher, co-principal of Clavell Capital, echoes his comments. He says he is working on two IPOs. Over the past 20 years he and his business partner Carl Peterson have done 30-plus IPOs without suffering any apparent damage to their reputations.