



## Private Placements Little Comfort for IPOs

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By Phil Wahba

NEW YORK (Reuters) - When Osmetech Plc (OMH.L: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) earlier this week canceled a \$44 million IPO in the United States, the British diagnostics platform maker dangled what looked like an appealing alternative: a private placement.

But it and other companies unable to go public in the slowest IPO market since 2003 may be in for a disappointment.

Private placements -- in which shares are sold only to institutional and other sophisticated investors -- and which some exchanges have seen as a potential growth area, appear to be dwindling and better-suited to larger deals.

Nasdaq OMX's (NDAQ.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) Portal Alliance, a private placement trading exchange expected to launch imminently, will bring together Nasdaq's current platform with platforms run by a number of banks including Goldman Sachs (GS.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), Bank of America (BAC.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) Credit Suisse (CSGN.VX: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and JP Morgan Chase (JPM.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)).

When Nasdaq OMX's chief executive, Robert Greifeld, announced plans for the merged exchange last year, he touted it as a conduit for future IPOs.

But the private placement market, which has slowed to a crawl, remains limited as a tool for smaller companies that want to raise money with a stock flotation, analysts said.

Only qualified institutional investors, or QIBs, that have at least \$100 million in assets can participate in a private placement, also called a 144a issue.

"Private placement is more of a bridge-gap solution," said Mark Heesen, president of the National Venture Capital Association, adding that 2008 has been one of the worst years on record for his members, with only six IPOs backed by venture capital firms.

"Companies that would have gone public by now or been acquired need a temporary place to go, and private placement appears to be one of those avenues." But he added that he has heard of only a few companies going that route.

"When public markets catch a cold, private markets frequently catch pneumonia," said David Weild, a senior adviser with consultancy Grant Thornton Capital Markets.

So far in 2008, 257 private placement equity issues, including follow-ons, have totaled \$97.1 billion, including follow-ons, down 47 percent from 2007, according to Thomson Reuters data.

## PRIVATE PLACEMENTS NO PANACEA

Investors' increasing requirement that companies be more mature before going public has led companies to consider the private placement market for funding to tide them over.

"What used to be the IPO point in the 1990s, when a company needed a \$200 to \$500 million market cap, is now \$1 billion," said Mona DeFrawi, chief executive of InsideVenture, a Silicon Valley-based service that will begin matching private investors and later-stage pre-IPO companies this winter.

Paradoxically, the 144a market is not hospitable to the small and mid-sized cap companies that have historically fed the IPO pipeline, Weild said.

"It works well only for larger companies because smaller transactions don't offer the same liquidity," he said.

While Portal Alliance and the New York Stock Exchange's (NYSE: Quote, Profile, Research, Stock Buzz) Arca Edge allow for the trading of private placements, those markets are not likely to spur many IPOs yet, Weild said.

"It's not a fully developed market yet, and they need more QIBs, and more research and hopefully Nasdaq Portal Alliance will bring this about," said Weild.

One subset of the 144a market, called PIPO -- for "pre-IPO" -- is set aside for companies planning to go public but wanting the money first before doing the paperwork that goes with an IPO. They then typically have two years to launch a deal.

While the U.S. Securities and Exchange Commission does not break down statistics for private placements, Weild said PIPOs have so far tended to be used for large deals.

For example, the August 2007 stock issue by Leon Black's firm Apollo Global Management LLC that raised \$648 million, nearly triple the average size of an IPO, was a PIPO. In April, Apollo filed for an IPO, but has yet to launch it in a brutal environment for private equity firms.

Blackstone Group (NYSE: Quote, Profile, Research, Stock Buzz) shares are down 75 percent this year, and Kohlberg Kravis Roberts & Co (NYSE: Quote, Profile, Research, Stock Buzz) in November postponed its IPO until next year.

Heesen said that IPOs remain the ideal way to raise money because going public brings visibility and liquidity.

With an IPO market he does not see recovering until the second half of 2009 -- and private placement a limited solution -- companies are now increasingly opting to be bought out instead, something he says chokes innovation by stunting their growth.

"We need public companies," he said.

(Editing by Matthew Lewis)