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IPO market could swing shut

By Todd Wallack – August 5, 2011

The recent market plunge will make it more difficult for promising companies to launch initial public offerings and begin to sell stock on public exchanges, financial analysts said.

Stock prices have declined more than 10 percent since July 21, signaling that privately held firms considering IPOs could have trouble attracting investors and getting reasonable prices for their shares. The Dow Jones industrial average fell 513 points yesterday.

Indeed, Ally Financial Inc., the Detroit automotive financing firm formerly known as GMAC, has already decided to delay its $6 billion initial public offering until at least September, the news agency Reuters reported. And WageWorks Inc., a San Mateo, Calif., firm that runs employee benefits programs, slashed the offering price for its shares by more than a third.

“I don’t see people lining up [to go public] Monday,” said Mark Selinger, a partner in law firm McDermott Will & Emery, who handles IPOs. “This will create a speed bump for the rest of the month and it remains to be seen what kind of effect it has for the rest of the year.”

One analyst said he expects many other companies, including Boston-based Carbonite Inc., which recently filed with the Securities and Exchange Commission for an IPO, will likely be forced to slash the share price or postpone the offering altogether because of unsettled markets. Carbonite, which provides online data backup services, had been expected to begin trading next week.

“We have seen the lake lose a lot of its water and all boats are going to drop,’’ said David Menlow, president of IPOfinancial.com, a Millburn, N.J. firm that tracks IPOs.

Many growing companies count on going public to raise additional capital for expansion and hiring. Such stock sales also typically funnel profits to venture capitalists and other investors, who in turn can reinvest the money into newer ventures. But if the IPO market is shut down for a lengthy period, it could put further pressure on the already weak economy and make it harder to bring down unemployment.

The slowdown comes when the IPO market had been storming back from the financial crisis. Last year, there were 154 IPOs completed, up from 63 in 2009 according to Renaissance Capital, a Greenwich, Conn., firm that tracks IPOs. So far this year, the IPO pace was running 19 percent ahead of last year’s tally.

Some of the best known IPOs this year, including Dunkin’ Brands Group and Cambridge-based Zipcar Inc., are based in Massachusetts. Both trade on the Nasdaq Stock Market.

In addition, a number of companies have launched IPOs outside the United States, either to capitalize on growing opportunities overseas or avoid the cost of complying with US financial regulations. GI Dynamics Inc., a Lexington medical device company, recently filed documents to go public in Australia. And earlier this year, Samsonite International, the Mansfield luggage maker, went public on the Hong Kong Stock Exchange.

Several firms, including Dunkin’, which owns both the Dunkin’ Donuts and Baskin-Robbins ice cream chains, were fortunate to go public last month before the stock market downturn threatened their stock sales, analysts said. But Kathy Smith, principal for Renaissance Capital, said the market drop could still affect those firms because some early investors could lose money and make it harder to establish a base of loyal stockholders.

“No company wants to do an IPO and subsequently see its stock trade poorly or possibly drop below the IPO price due to market conditions,” she said. “These highly volatile markets are very difficult.”

Dunkin’ closed at $24.52, down $1.07 yesterday - still well above the $19 price Dunkin’ set for the initial investors, but 12 percent lower than its closing price on its first day of trading a week ago.

Unless the stock market turmoil drags out for months, one industry executive said he doubts the recent declines will deter companies from continuing to go public, but just simply postpone the timing.

“I don’t think the overall IPO pipeline will be affected,” said Stephen Zamierowski, director of Deloitte LLP’s Tech-Venture Center in Waltham, which provides auditing services to 100 venture-backed startups. “We have more companies preparing to go public now than we have had in 10 years.”