MARKETS/MONEY/PERSONAL FINANCE

SECTION D

WEDNESDAY JANUARY 6, 1993 CC††

BUSINESS

Los Angeles Times

TONY BARNARD / Los Angeles Times

Investment banker Lloyd Greif in his office with display of products of companies that his firm has helped go public.

Small Firms' Stock Issues Surge

Some Fear Overheating of Initial Public Offering Market

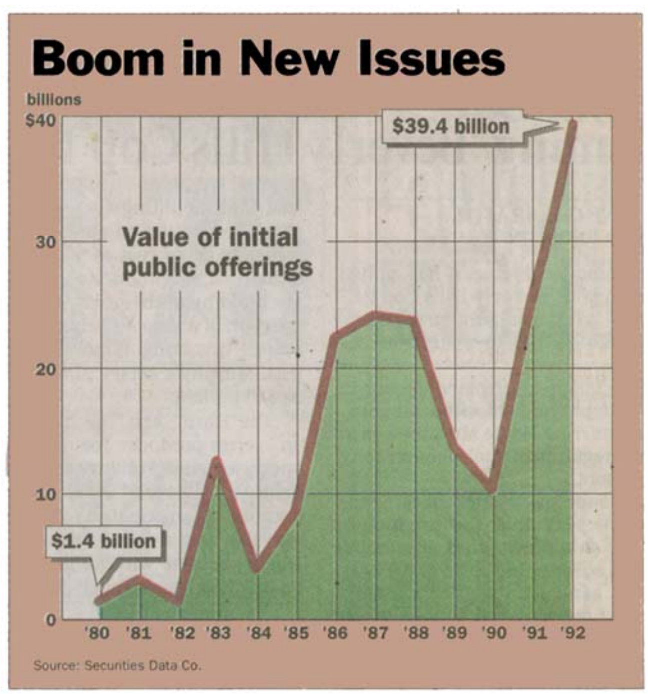
By KATHY KRISTOFF

Smaller companies are issuing stock to the public for the first time at a record clip, with some of these shares rising as much as 50% in price within hours after their offering. But some analysts are concerned that individual investors may be snapping up these shares just as the market may be close to peaking.

Surges in new stock issues often signal that the initial public offering market is overheating, said Robert S. Natale, vice president and editor of Standard & Poor's emerging and special situations newsletter.

The bloom isn't quite off the rose, "but it's well past the wedding day," he said.

A record $39.4 billion in IPO shares were sold in 1992, compared to $25.1 billion in 1991 and $10.2 billion the year before, according to Securities Data Co. About 595 companies went public during the year, and more than 700 more are slated to go public within the next several months, said Lloyd Greif, founder of Greif & Co., a Los Angeles-based investment house.



ROBERT BURNS / Los Angeles Times

Although no one has precise statistics, it is generally accepted that individual investors are buying up a large portion of IPO issues, said Hartley T. Bernstein, partner at the New York law firm of Brandeis, Bernstein & Wasserman.

"It has taken four or five years for the individual to thaw out from his [initial public offering] chill," Greif said. "But now they're responding to opportunity knocking on the door."

Price performance of some new issues has been dazzling. The Standard & Poor's new issues index was up 106% in 1991 and up another 29% in 1992, S&P's Natale said. And when Bill Clinton was elected President, in part with promises to spur the economy, the new issues market heated even further. Some issues have soared more than 30% in a matter of hours of going public.

For example, when Snapple, a maker of popular flavored teas, went public late last year, the offering was so hot that the company's share price soared to more than $33 from $20 in a matter of hours. And it was, by no means, the best performing IPO of the year.

Lone Star Steakhouse & Saloon, which went public in March, is up more than five times its offering price, according to Securities Data Co. Casino Magic, which went public in October for $5 a share, is now selling for about $22.

Experts have differing opinions about why the boom is happening. Some say it's just part of the overall surge in the market for small-company stocks. Others maintain that it is pent-up demand caused by unusually slow years in 1989 and 1990.

Others, however, contend that when individual investors are actively solicited to buy IPO shares, it's a sign that the market is about to plummet.

Normally it's time to get out of the market when there are more than 40 new issues coming to the market each month, S&P's Natale said. The current rate of new stock issuance is more than double that.

Even in the best of circumstances, IPOs are risky, experts say.

Although some companies that sell their shares to the public for the first time have long track records, many others are fledgling firms with little business history.

Anyone considering an IPO must read the prospectus—a weighty legal document that talks about the company's business history, financial results, management, litigation and risks. It also says how many shares will be sold at the offering and at about what price. Brokers are required to provide you with a prospectus when they sell IPO shares.

Experts say you should look for an experienced management team and a strong board. The company should also have consistent earnings—or have a good reason why inconsistent financial results are likely to improve.

Although it's always nice to see double-digit earnings hikes, mainly investors should be looking for trends, experts say. What you see in the past is a good indication of the future, whether that's steady increases or alternating profits and losses.

Also, carefully read the section on risks, which should clearly detail what could go wrong. Most offerings will talk about generic risks—such as the general volatility of the stock market. What you should be concerned about are unusual risks. Perhaps the company sells all its products to just one big buyer, who has no obligation to continue buying, for example. Or the company is being sued for patent or trademark infringement.

And, finally, look at where the money from the offering is going. If more than 10% or 20% of the proceeds are going to "selling shareholders," that's probably a bad sign, Greif said.