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Initial Public Offerings Gain Quick Acceptance

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Initial public stock offerings, which raised a record \$3.8 billion for 39 Washington area companies last year, proved to be one of the year's best bets for Washington investors.

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Performing spectacularly, even by the standards of the booming stock market, new issues sold last year by companies in the District, Maryland and Virginia were up an average of 60 percent from their offering price as of Friday's market close.

Stocks of companies that floated IPOs last year did better than shares of the average regional company, which posted gains of about 15 percent since the start of 1997. The regional IPOs were able to beat the overall market because three-quarters of the stocks were sold by technology companies, which have been market darlings in recent months.

Because of such strong first-year performance, more than 40 of the region's companies were able to take a second bite of the apple last year, returning to the market to sell more shares at higher prices.

The latest to seek a second round of financing is Software AG Systems of Reston, which had the region's top-performing IPO of 1997, up 163 percent as of Friday. Last Monday, the company filed with the Securities and Exchange Commission to sell 5.4 million more shares.

Software AG went public during a soft spot in the IPO market last fall and was able to get only \$10 a share for its stock rather than the \$12 executives had anticipated. But with its shares trading above \$26, the secondary offering will produce windfalls for Software AG's top managers and Thayer Capital Partners, the Washington venture capital firm that financed the purchase of the company from its German-owned parent.

Thayer plans to sell 5 million shares – for about \$130 million. President Dan Gillis will cash in 200,000 shares for \$5.2 million and chief financial

officer Harry McCreery will sell 150,000 shares for \$3.9 million.

The payoff at Software AG differs only by degree from what is happening at dozens of other Washington area companies that have gone public in the past couple of years. With investors eager to buy into burgeoning tech companies, stock prices have soared, enabling many fast-growing companies to sell more shares, raise capital and grow even faster.

The biggest gains have come in the IPOs of computer, software and communications companies, which took in roughly half of all the capital raised by regional companies but dominated the rankings of the best-performing IPOs.

Ten of the 12 stocks that have doubled since their IPOs last year are involved in some sector of the "information technology" industry that has become the region's biggest and most vigorous business.

While tech companies produced the highest returns for Washington investors last year, IPO stocks were strong across the board. All but seven of the region's IPOs were trading above their offering price as of the close of Friday's trading.

The broad-based gains of stocks after their IPOs reflect the reversal of the pattern that prevailed a year ago. Last spring only 46 of the 93 stocks first issued in the previous 16 months were selling above their offering prices.

But that turned out to be only a spring slump. When the stock market came roaring back, the demand for IPOs and secondary offerings picked up and companies in the mid-Atlantic region began cranking out offerings.

The region's biggest IPO for the year was the \$552 million raised by Consolidation Capital Corp. This is the latest company New issues sold last year by companies in the District, Maryland and Virginia were up an average of 60 percent from their offering price.

formed by Jonathan J. Ledecy, founder of U.S. Office Products Co., which went public in 1995, and U.S.A. Floral Products Inc., which raised almost \$75 million in an IPO last October.

Following the model of Ledecy's earlier ventures, Consolidation Capital is a "roll-up," whose strategy is to build a network of office building maintenance and construction services by buying independent contractors around the country. Though Ledecy had not even chosen an industry to invest in at the time of the offering, investors gobbled up the stock.

While Consolidation Capital stock is trading about 22 percent above its

offering price, the year's second-largest offering proved to be the most costly loser for investors. Circuit City's CarMax Group raised more than \$437 million in an IPO at \$20 a share, but because of doubts about the used-car superstore concept, the stock quickly lost ground.

After falling below \$7 a share earlier this year, CarMax stock is back to \$12.50. But at that price, the total market value of the shares still is \$150 million less than they were sold for in the IPO.

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