

NetSuite IPO Wins Fair-Value Fans

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SAN FRANCISCO -- While **NetSuite's** ([N](#) - [Cramer's Take](#) - [Stockpickr](#)) newly minted shareholders may feel first-trading-day blues, look for the company's Dutch auction-style IPO process to be repeated more in 2008.

NetSuite shares priced Wednesday at \$26 and were trading recently at \$27.75, only 6.7% higher. Holders of the new issue accustomed to seeing a first-trading day lift in the high double-digits may feel as though the Grinch stole their payoff.

But for NetSuite and its venture investors, the stock's performance Thursday proves they made a wise choice by forgoing the typical placement of shares. The deal raised \$161.2 million for NetSuite, approximately double the base price the [company](#) had filed to raise. It also gave the company a market cap above \$1.55 billion.

"The early big winner here is undoubtedly NetSuite, and the losers -- the investors -- are left questioning why they put in bids that were unrealistic," IPO Boutique analyst Scott Sweet wrote in a note Thursday.

"In past Dutch auction deals, and it appears the same in this case, investors put in overzealous high bids to 'beat' others in a scramble to get shares," Sweet stated. "It is highly likely that it has ... overvalued the company."

Dutch auctions set up a bidding process to find an optimal market price for the stock, the lowest price at which an issuing company can sell all the available shares. Typically, IPO prices are set by underwriters using a negotiated pricing process.

Companies planning to go public in 2008 may take a second look at NetSuite's results. On the first trading day, investors' willingness to pay just a few percent upside to the offering price is an indication that the pricing was fair, according to MorningNotes IPO analyst Ben Holmes. "Does it make the game a little less sexy? Yes," Holmes acknowledged. "At the end of the day, the process worked. I say they nailed it."

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"A Dutch auction is a democratic process," says Debby Farrington, general partner at venture firm StarVest, which has held a 5.1% stake in NetSuite since 2000. "It treats all bidders the same. The little guy has the same chance to put in bids as the big institutions."

The auction process is more beneficial to the [company](#) going public and its venture investors, because bankers setting price in a typical IPO may favor their institutional clients. "With an auction, they don't leave anything on the table. You don't see shares shoot up 70%" on their first trading day, she added.

NetSuite originally listed a price range of \$13 to \$16, [revising the range upward twice](#) the day of the offering.

Because of the rarity of auction-style IPOs, for investors looking to buy [shares](#) on the first trading day, doing the math was no easy task, notes Holmes. "No one new how to game this thing," with some buyers going short while others were long, Holmes said.

Since **Google's** ([GOOG](#) - [Cramer's Take](#) - [Stockpickr](#) - [Rating](#)) high-profile Dutch auction in 2004, in which the underwriters were forced to lower the price range, few companies have been willing to go that route to a public placement.

Holmes estimated that four other issues had since gone out using the process.

Traffic.com priced in January 2006 at \$12 and reached a high of \$13.30 its first trading day. It was later bought by **Navteq** ([NVT](#) - [Cramer's Take](#) - [Stockpickr](#) - [Rating](#)).

From a price range above \$11, **FortuNet** ([FNET](#) - [Cramer's Take](#) - [Stockpickr](#) - [Rating](#)) priced in January 2006 at \$9, closed its first day at \$9.05, rose to \$24 in May 2006 and currently trades at \$7.60.

In May 2007, **Interactive Brokers Group** ([IBKR](#) - [Cramer's Take](#) - [Stockpickr](#)) went out at \$30.01, the high end of its price range, gained 4.3% on its first day, and now goes for \$31.47. Also in May, **Clean Energy Fuels** ([CLNE](#) - [Cramer's Take](#) - [Stockpickr](#)) priced below its initial range at \$12, rose to \$13 its first day, and was trading at \$14.98 Wednesday.

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All these deals involved Dutch-auction specialist W.R. Hambrecht as either lead or participating underwriter. That company did not return a call seeking comment.

The occasional retrenchments from original price ranges is a sign the auction process reins in overestimations on the part of venture investors.

An auction brings a higher likelihood that the new issue will close at the offer price, Holmes said. The process "is more than just stacking up orders," he said. "There's some skill and science to it."

"Every open IPO deal that Hambrecht prints successfully makes the next one easier to sell," Holmes said. "They are chipping away at acceptance."