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Hedge fund Och-Ziff down in market debut

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Reuters Wednesday November 14 2007

(Updates share price; adds use of proceeds, market capitalization, financial detail, Dubai stake, proceeds to management, byline)

By Lilla Zuill

NEW YORK, Nov 14 (Reuters) - Shares of hedge fund Och-Ziff Capital Management Group opened up moderately in their market debut on Wednesday but then fell 4 percent, a day after an initial public offering that raised \$1.15 billion.

Shares opened up 2.3 percent at \$32.75 on the New York Stock Exchange, before falling below the offering price of \$32 per share. By early afternoon, shares were trading down \$1.30 at \$30.70 on the New York Stock Exchange.

On Tuesday, Och-Ziff's offering of 36 million shares raised \$1.15 billion by pricing at \$32 per share, above the midpoint of the \$30 to \$33 forecast range.

The \$30 billion hedge fund was founded in 1994 by former Goldman Sachs trader Daniel Och and the Ziff publishing family.

Concurrent to the offering, Dubai International Capital LLC and subsidiary DIC Sahir Ltd, are buying a 9.9 percent stake in Och-Ziff worth about \$1.1 billion.

The combined \$2.2 billion is largely to go to partners, who will reinvest after-tax proceeds into company funds, according to a filing with the U.S. Securities and Exchange Commission.

Based on its offering price, the company has a market capitalization of \$9.79 billion, said Francis Gaskins, president of research firm IPOdesktop.com.

The company disclosed in a recent filing that while its annualized performance since inception is a return of 16.6 percent, its fund has underperformed the Standard & Poor's 500 in recent years.

Its 1-year performance was a return of 13.4 percent, versus the S&P 500 Index's 16.4 percent; 3-year performance was 12.5 percent versus 13.1 percent; and 5-year performance was 13.9 percent, while the S&P returned 15.5 percent.

"How (Och-Ziff) went out and raised \$2.2 billion from Dubai and the public, and created a lot of buzz when performance was lower than the S&P, means they are great salesmen," said Gaskins, adding that while performance improved in October, its recent spotty track record should not be ignored.

PARTNERSHIP INTERESTS

Like giant private equity firm Blackstone Group, which debuted as a public company in June, Och-Ziff is organized as a limited partnership. The structure allows the firms to benefit from a lower tax rate under current law, and in each case, public offerings have been a boon for management.

Och has a 48.5 percent post-offering stake, which gives him 77.6 percent voting power, valued at about \$4.75 billion.

Blackstone's IPO valued Chief Executive Stephen Schwarzman's stake at nearly \$8 billion, but the value of its stock has fallen drastically since, by more than 25 percent.

Blackstone's shares have declined as a downturn in credit market worries has dampened demand, and analysts said the concern is also likely to depress interest in Och-Ziff.

Proposed legislation on Capitol Hill could also move the tax rate applying to each firm closer to 35 percent from 15 percent, which the companies warn could jeopardize business and the ability to retain partners.

"There is still a lingering hangover with the poor performance that Blackstone has exhibited that surely will spill over to possible buyers," said Scott Sweet, managing director of research firm IPOboutique.com.

"Although their business (Blackstone's and Och-Ziff's) is not a blueprint for one another, it is still close enough that these economic times do not favor this kind of alternative investment vehicle," Sweet added.

Similar to Och-Ziff's sale to Dubai, Blackstone, simultaneous to its offering, sold a large stake to China.

"They are trying to make a big thing out of the Dubai stake -- it is window dressing,"

added Sweet.

Och-Ziff posted 2006 net income of \$588 million on revenue of \$1.01 billion. Underwriters, led by Goldman Sachs and Lehman Bros, have the option to purchase an additional 5.4 million shares to cover overallocments. (Reporting by Lilla Zuill, editing by Gerald E. McCormick/Lisa Von Ahn)

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