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Visa shares leap 28% as record IPO debuts

3-19-08 5:01 PM EDT | [E-mail Article](#) | [Print Article](#)

NEW YORK (MarketWatch) -- Visa Inc. shares surged more than 28% in their market debut Wednesday as investor demand for the largest initial public offering in U.S. history drew spirited bidding.

It took about 45 minutes to align buyers and sellers before the share finally opened Wednesday, as demand surged.

"We operate in a large global market undergoing a significant shift from cash and check to electronic payments. We believe Visa is well positioned to build upon our past success and take advantage of this migration to electronic payments," Joseph Saunders, chief executive of Visa said in a statement.

The shares closed the session at \$56.50 after touching a high of \$69.



Late Tuesday, Visa ([V](#)) priced the hotly anticipated offering of 406 million shares at \$44 each, pegging total proceeds at about \$17.86 billion.

The pricing topped the previously estimated range of \$37 to \$42 a share. San Francisco-based Visa's shares trade on the New York Stock Exchange.

Dan Davidowitz, portfolio manager and research analyst at Polen Capital Management, who owns shares of Visa rival MasterCard, said Visa's prospects are good.

"These are great franchises with the right profit incentive. There's a lot of leverage in this business, margins are probably better than ever," he said.

Davidowitz said that profit margins are likely to continue growing at Visa because it's mainly a fixed-cost business. In other words, it doesn't really cost Visa much for new customers.

"There are not a whole lot of incremental costs," he said, adding that, "revenues will grow, profits will grow faster. No one else really does this."

Banks and underwriters do well

J.P. Morgan and Goldman Sachs are lead underwriters for the IPO, which easily beat out the previous U.S. record held by AT&T Wireless. Back in 2000, AT&T Wireless priced at \$11 billion.

The strong demand for Visa's shares had been widely anticipated, as investors seize on a growth opportunity amid a harsh economic climate that has negatively affected the financial sector.

"Despite the broad market malaise in 2008, especially in financials, the Visa deal was a triumph not only for the investors but for the underwriters who had to put together, in an artful way, the biggest IPO in U.S. history. I see a strong future for Visa," said Scott Sweet, senior managing partner at IPO Boutique.

J.P. Morgan was slated to offer nearly 29 million shares as Visa's largest selling shareholder, according to regulatory filings. After the shares priced above the expected range, that sale amounts to roughly \$1.28 billion.

Investors have shown a great deal of interest in a Visa IPO due to the strong performance of card rival MasterCard Inc. ([MA](#)) since its own IPO in 2006.

MasterCard shares have risen roughly 350% since then.

Payday for banks

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With jitters lingering in the markets about banks' balance sheets and capital requirements, financial-sector investors are pleased to have a reason for fresh enthusiasm.

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All told, the banking owners of Visa plan to use \$10.2 billion to redeem 123.2 million shares of Class B common stock and 143 million shares of Class C common stock, according the prospectus.

[Top](#) of the proceeds will be placed into an escrow account for litigation settlements in legal battles with Discover Financial Services ([DFS](#)) and American Express Co. ([AXP](#)), among others, as well an antitrust suit.

The rest of the IPO pot, representing about \$3 billion, is being reserved for general corporate purposes, which may include about \$2 billion to redeem two more classes of stock in October.