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## Follow-On Stock Deals Boom; Become Strategic Vs Defensive

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 By Jessica Papini and Lynn Cowan  
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NEW YORK (Dow Jones)--Public companies selling more shares of their stock through follow-on deals are encountering an increasingly vibrant market.

The pace of deals has hit a year high, the types of industries represented has broadened, and the reasons behind the offerings have become less defensive compared to earlier this year. Thanks to the steady improvement of the broader stock market in recent months, investors are increasingly interested in putting their money to work; at the same time, companies are more willing to sell their shares at better prices than they could have fetched a half-year ago.

September has been the most active month this year for follow-on issuance, which occurs when a publicly traded company decides to sell more shares into the market. This month racked up 81 deals raising \$19.2 billion, bypassing May 2009's 72 deals, according to Dealogic. The pipeline for follow-on stock offerings is expected to remain healthy throughout the rest of this year, into 2010, experts say.

"As long as the broader equity market remains open, the pipeline should remain healthy," said Jeff Bunzel, head of equity capital markets at Credit Suisse. Many investors are underallocated in equities and are looking to move cash off the sidelines, he said.

Earlier this year, issuance in secondary offerings was dominated by financial institutions seeking to shore up balance sheets in the wake of federal stress tests. Now, as the pipeline fills due to the overall improvement in the stock market, issuance is occurring across an array of growth sectors, from health care to technology.

"It's not just small-cap companies, but mid-cap and large-cap companies" that are issuing stock, said Dan Cummings, head of equity capital markets in the Americas for Bank of America Merrill Lynch.

Additionally, the reason for the extra capital has shifted to help companies position themselves for growth opportunities, rather than to fill balance-sheet holes. Smartphone maker Palm Inc. (PALM), college operator Grand Canyon Education Inc. (LOPE) and pharmacy software provider SXC Health Solutions Corp. (SXC) all raised money in September for working capital and general corporate purposes, with no mention of debt paybacks. DNA technologies specialist Qiagen NV (QGEN) said it raised money for acquisitions, shipper Navios Maritime Partners LP (NMM) to expand its fleet, and drug developer Incyte Corp. (INCY) for research and development.

A half-dozen recent deals have been held solely for the benefit of private owners, such as venture capitalists who own stakes in the publicly traded companies, according to data from Dealogic. Success at selling such deals is considered to be bullish, not only because the sellers think the price is high enough to suit them, but because buyers know none of the capital raised is going to benefit the company. Online restaurant reservation company OpenTable Inc. (OPEN) completed one last week in which even top executives sold a portion of their stakes, and still investors piled on; the offering size was increased by 20% to 6.97 million shares when demand ran higher than expected.

The primary buyers for this crop of follow-on deals are institutional investors, particularly mutual funds, say bankers. Orders are being placed by mutual funds of all stripes, they say. Large investors like follow-on deals because they traditionally are sold in chunks at a discount and don't move the stock price the way a big purchase on the open market would.

"There is vast pent-up demand for secondaries despite the mind-boggling quantity that is coming daily," said Scott Sweet, managing director of research firm IPOBoutique.com.

The revitalization of the initial public offering market seen in the past few weeks should help the pipeline for secondary offerings months down the road, said Cummings, of Bank of America Merrill Lynch. "There tend to be add-on transactions from a company 12 months after their IPO."

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