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Team Health Offering Looks Attractive This Week

By LYNN COWAN

With U.S. investors jittery about maintaining the status quo in their portfolios as the year comes to a close, there's probably just a single IPO that will be embraced by the market this week out of the four that are expected.

That one deal, from hospital staffing company Team Health Holdings Inc., is expected to trade Wednesday on the New York Stock Exchange under the symbol TMH. The three other companies planning to debut on the NYSE—Cobalt International Energy Inc., Kraton Performance Polymers Inc., and meat processor National Beef Inc.—might want to think about pulling the covers over their heads until 2010 arrives.

Large institutional investors are in no mood to take any risks in the market right now, especially after last week's poor returns: of the three IPOs that managed to price, two traded down and the other barely managed to end the day flat with its IPO price. Of the four expected this week, only Team Health has all the hallmarks of a sure bet: hot industry, growing revenue, growing profits.

"In years like this, where there was a significant move from trough to peak, the performance of managers is outstripping their benchmarks. So there's a greater likelihood under those circumstances to want to protect performance than in years when performance is down or not beating a benchmark," says Brian Fagen, co-head

of liquid market sales, at Barclays Capital.

That doesn't mean that the IPO market is doomed. Give it another month, when mutual funds and hedge funds are starting with a fresh slate for 2010, and there will likely be more appetite for risk, say bankers and analysts.

"Unless the value proposition posed by a deal is absolutely going to work, it's probably not the right time," says Mark Hantho, global head of equity capital markets at Deutsche Bank AG, of the current environment. "Companies need to be cautious when entering the market. Not because the markets aren't functioning, or that they won't function in 2010, but because of timing. Buyers are safeguarding their returns from 2009, and there's no real catalyst in the market near term to take any more incremental risk."

Team Health could prove the exception this week. It's a staff outsourcer for 550 hospitals in 46 states, with net revenue up 9% to \$1.9 billion and net income up 10% to \$55 million in the first nine months of the year. The company's focus is emergency room physicians and hospitalists, which are doctors who focus on admitted patients; besides doctors, it contracts out nurse practitioners and physician assistants.

"The hospitalist concept is very hot now at medical centers, so I think that will play well. There's also a tremendous shortage in emergency

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rooms—E.R.'s are closing—so there's a nice story there," says Scott Sweet, managing director of research firm IPOBoutique.com.

Under more normalized conditions, Cobalt, Kraton and National Beef might have a shot at a better performance than they will this week. They are scheduled to trade under the symbols CIE, KRA and NBP on Wednesday, Thursday, and Friday, respectively. Cobalt, an oil exploration company, has amassed an impressive portfolio of offshore drilling sites, but has no proven reserves or revenue.

Kraton, which makes a synthetic rubber material, says its sales decline in the first three quarters of 2009 has narrowed as the year has progressed, and it expects fourth quarter sales volume to beat the same period of 2008. National Beef is probably the weakest of the lot. As a beef processor, the bulk of its earnings come from a commodity product with volatile, low-single digit profit margins. Those margins have been rising in the past two fiscal years, however, as it focuses on more value-added products.

Write to Lynn Cowan at lynn.cowan@dowjones.com

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