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Blackstone Group to price initial public offering on Thursday

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NEW YORK (AP) - Blackstone Group LP, manager of the world's second-largest buyout fund, moved up its much-hyped US$4.75 billion initial public offering to this week amid growing scrutiny of the firm on Capitol Hill and in the media.

The New York-based buyout shop, which controls a portfolio of companies from Madame Tussauds wax museums to real estate goliath Equity Office Properties Trust, could join the ranks of the New York Stock Exchange by Friday morning. The landmark deal, originally scheduled for sometime next week, will likely go down as the fourth-biggest IPO in U.S. history.

The unexpected move to speed up the offering comes amid speculation that chief executive Stephen Schwarzman might be having second thoughts. A spokesman for Blackstone would not comment, citing the quiet period for initial public offerings.

Once considered a darling of the financial community, the private-equity group has been knocked around in recent days by U.S. senators critical of its business model and news organizations taking aim at Schwarzman's lavish lifestyle.

"They were really hit from all sides, and must have sat back over the weekend and thought about what they were going to do about all this," said Colin Blaydon, director of the Center for Private Equity and Entrepreneurship at Dartmouth College's Tuck School of Business. "Sooner is better than later when facing all this uncertainty. And maybe moving forcefully, aggressively and successfully will have a positive effect on the debate."

For many investors, the IPO presents a rare opportunity to get in on the booming private equity industry - which buys struggling companies, turns them around, and cashes in by taking them public again or selling them to other firms.

Blackstone plans to float a 12.3 per cent stake in its management division, which gives investors little say in how the firm operates its $88 billion portfolio of companies and real-estate holdings. With units in the partnership set to price between $29 to $31, the IPO could raise between $3.87 billion and $4.14 billion.

Factoring in a $3 billion investment by the Chinese government, and shares bought by the investment banks underwriting the deal, Blackstone could carry a market value of $32 billion.

But analysts say considering the challenges the company faces, investor interest will be driven mostly by the opportunity to own a piece of the Blackstone reputation.

"There is a perception that the private equity world gets above average returns, and that basically is weighted more by investors compared to what they'll actually be taking ownership in," said Brian Hamilton, chief executive of financial information firm Sageworks Inc. "This all has to do with the psychology in the market."

The timing of the IPO was in some question after legislators proposed legislation last week that would double Blackstone's tax bill in five years. The legislation would tax as corporations all publicly traded partnerships whose profit comes from managing other people's assets.

The legislation would abolish a two-decade old provision that allows these partnerships to pay capital-gains taxes of 15 per cent on their share of the firm's income. Corporations currently pay up to a 35 per cent tax rate. Blackstone said approval of the bill would severely hamper its ability to turn a profit.

The firm, which announced its IPO in March, had already warned potential investors it did not expect to be profitable for several years because of expenses tied to becoming a public company and executive compensation.

Bumping the IPO up could be a way to avoid further political wrangling, especially as senior House of Representative members are working on similar tax legislation.

The astronomical pay packages of those who lead private equity and hedge funds has also drawn the ire of the Senate finance committee, which is investigating if the manager's portion of a fund's profits - called carried interest - should be taxed differently.

Schwarzman was criticized in a number of bruising articles about his own wealth after the IPO, when he'll walk away owning a 24 per cent interest worth about $7.7 billion.

In February, he threw himself a $3 million party at the Park Avenue Armory - where guests like Barry Diller and Donald Trump gathered to enjoy a private concert by Rod Stewart.

"One of the reasons that they want to expedite it is the negative news that has been out there," said Scott Sweet, principal researcher at advisory firm IPO Boutique. "It has hindered what really should be viewed as a premier and once-every-several-year type IPO."