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Did Rosetta Stone unlock locked-down IPO market?

By Adam Shell, USA TODAY

NEW YORK — In the money-talks language of Wall Street, the 40% first-day price run-up in shares of Rosetta Stone ([RST](#)), the freshly minted initial public offering, will go down as a rally of *grande* or *grosso* proportions.

Investors who got in on the deal made fast money. That bullish fact meshes nicely with the language-learning software company's brand-building TV ad — starring Olympic swim champ Michael Phelps — that gained popularity last summer touting Rosetta Stone's unique ability to teach people how to learn a new language in no time.

Indeed, in what has been a bleak, barren landscape for IPOs since the financial crisis erupted last summer (Rosetta Stone was only the fourth company to go public this year), the Arlington, Va.-based firm not only had the courage to attempt to raise cash by going public and issuing stock, but was successful in doing so. Its success could signal a thawing of the IPO market and signal that investors are willing to take on more risk.

The final offering price came late Wednesday at \$18 a share, up from an estimated range of \$15 to \$17 — the first IPO to price above its range in almost a year. Thursday, the shares jumped \$7.12, or 40%, to \$25.12. It was the best first-day IPO pop since fertilizer maker Intrepid Potash rose 58% last April, says IPOhome.com.

A 'digital solution'

Commenting on the rosy reception from Wall Street, Rosetta Stone's multilingual CEO, Tom Adams, expressed his delight in his native Swedish: "*Det är otroligt roligt att vi har börsnoterats på New York Stockexchange.*" Translation: "It is incredibly wonderful to go public at the NYSE."

Adams calls Rosetta Stone's interactive teaching tools — delivered via CD-ROM or the Internet — a "digital solution" to language education around the globe. "We're changing the way people learn new languages," he says.

The company, which has customers in more than 150 countries and provides educational materials in 31 languages, targets individuals, businesses and schools, as well as the U.S. government and military. Demand for software teaching Mandarin Chinese and Arabic is rising.

The teaching technique Rosetta Stone employs, called "dynamic immersion," is akin to how kids learn their first language. No translations or tedious grammar drills are used. Instead, learners gain command of new words and proper pronunciation by matching them with images and pictures that provide real-life context.

So what has investors so jazzed? Scott Sweet, senior managing director at IPO Boutique, says Rosetta Stone has four things going for it: high profitability, low debt, great brand awareness and excellent growth prospects.

Rosetta Stone's revenue rose 52% last year to \$209 million, driven mainly through direct sales channels, including call centers, websites, kiosks and its own sales force. The software is also sold through retailers Amazon.com, Apple, Borders and Barnes & Noble. A level one software package retails for \$259.

Rosetta Stone is also the only pure play language-learning company that is publicly traded. Competitors such as Berlitz are privately owned.

The company is also likely to benefit from the globalization of business and the growing reliance on effective communication skills across borders, says Ed Meehan, principal at Arcady Bay Partners, an investment bank specializing in education and technology.

"There is an awareness that the U.S. lacks the language skills to compete in the global world," he says. "Americans never had to learn a second language; now they do. The international growth story is interesting."

In its filing, the company said it will push to generate more international business; only 5% of its current sales come from outside the U.S.

Oddly, while the company says a weak economy could hurt sales, analysts say the tight job market and global emphasis might boost sales by motivating folks to improve their skills. "It's helpful in tough times," Sweet says, "to be bilingual or multilingual when competing for a job."

Rosetta Stone was named after the artifact that unlocked the secrets of Egyptian hieroglyphics.

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