IPO VIEW-NYSE stock's debut seen as unusual, yet appealing

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By Scott Malone

NEW YORK, Jan 6 (Reuters) - In a month or so, shares of the New York Stock Exchange itself will make their debut on the Big Board. Unusually for a company of its size, the NYSE will be coming public not through an initial public offering but through a merger, with an expected stock offering to come later.

NYSE Group Inc. will become a publicly traded company when it closes its pending acquisition of Archipelago Holdings Inc. <AX.P>, which is expected to close later this month or in February, subject to regulatory approval. A spokesman said a stock offering would likely follow a month or two after the deal's closing.

Analysts and experts said they expected the secondary to be well received, given the strong performance of recent exchange IPOs, including those of CBOT Holdings Inc. <BOT.N> and IntercontinentalExchange Inc. <ICE.N>. Both stocks have risen more than 50 percent from their offer prices.

"I don't think (the NYSE will) have any trouble raising money," said Tom Taulli, an IPO expert and founder of DealflowSearch.com, of Newport Coast, California. "The markets are anticipating this already. We've seen the seats on the exchange skyrocket."

NYSE seats more than doubled in price last year after the exchange revealed its plan to buy Archipelago. The final NYSE seat to be sold -- sales ended on Dec 30, ahead of the deal's closing -- went for $3.55 million, according to the exchange. Archipelago shares have nearly tripled, trading at $51.52 on Friday, up from an $18 close on April 19, the day before the planned deal was disclosed.

Details of the NYSE's planned share offering have not been disclosed. Its shares are to trade under the symbol "NYX." <NYX.N>

ECHOES OF REVERSE MERGERS

The process the NYSE is using to become public resembles a reverse merger, a deal in which a private company sells itself to a public company but the owners or management of the private entity gain control of the public company. It's a technique that smaller companies often use to avoid the time and cost associated with an IPO.

"There are very few large private companies that go public through acquiring a public company," said Benjamin Howe, managing partner at America's Growth Capital, a Boston investment bank.

Video-rental chain Blockbuster Inc. <BBI.N>, which came public in the late 1980s, is commonly cited as among the better-known companies to have performed a reverse merger.

Jay Ritter, a professor specializing in IPOs at the University of Florida, said reverse mergers typically appeal to "a very tiny company that the more prestigious underwriters would not have touched ... In general, for those deals, it's a very different market from the NYSE, which is an established presence."

But the NYSE-Archipelago company differs from the classic reverse-merger model in a key way. Often, the public company involved in the deal is a shell operation with little or no ongoing business.

In contrast, the NYSE's acquisition of Archipelago will bring sweeping changes to the 213-year-old exchange, including an expansion of electronic trading, increased debt and futures trading and a shift from the NYSE being a member-owned organization to a for-profit company.

NYSE officials argued these changes are critical if the exchange is to fend off growing rivals, including the Nasdaq Stock Market Inc. <NDAQ.O>.

"When you have an 80 percent market share and a single product, it is very difficult to do an IPO and have a viable strategy," said NYSE Chairman Marshall Carter, in a deposition related to a suit brought by seatholders opposed to the NYSE-Archipelago deal. "That kind of IPO is only instant gratification and does not lead you to the strategy that ... had been adopted by the board, which was to become a multiasset-class global powerhouse."

IPO experts suggested that by releasing some shares at first in the merger process and then following up with an offering, the NYSE might be able to command a higher price for the shares it sells than it would in an IPO.

"You can get a much higher valuation for your stock the second go around," said Timothy Pollock, a professor at Penn State University, in State College, Pennsylvania. "If you have a smaller float, it's easier to drive the price up."