REUTERS

Glare of publicity key in IPO success.

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By Steve James

NEW YORK (Reuters) - Never underestimate the power of the press, especially in the often obscure world of initial public offerings.

Frequent mentions of IPOs by the media can help drive up interest from investors and have greater impact than official prospectus information on IPO prices, new research shows.

Some positive media coverage can give an offering a boost, sending shares higher on the first day of trading in a process known as underpricing. But too much advance publicity could actually limit the first day's gains, especially if some of the stories are less than glowing.

"In the often murky world of IPOs, where little-known firms are liable to have their stocks underpriced, a little glowing enthusiasm in the media can go a long way," said Timothy Pollock, a University of Maryland professor of management.

Pollock and colleague Violina Rindova also found in a study that underpricing is likely to have effects beyond a stock's first day of trading. It tends to increase the volume of post-IPO media coverage, which, in turn, is associated with superior price performance in the 60-day period following the initial day of trading.

SOPHISTICATION

"In a market such as the IPO market, with many sophisticated and skeptical buyers, it is media-provided, rather than company-provided, information that has the credibility and/or reach necessary to influence investor behaviors systematically," said Pollock.

The best bargains for investors, he said, are more likely to be IPOs that get a small amount of all-favorable press coverage than those that receive a large amount of mostly favorable coverage.

He gave an example. Prior to its 1992 IPO, Callaway Golf Co. received only positive attention. It turned out to be one of the most underpriced stocks of the sample, offered by underwriters at $20 a share and rising to $32.38 by the end of the first day of trading, for a jump of about 62 percent.

In contrast, Starbucks Co. had a lot more press coverage than Callaway, but the tenor of the articles was more mixed -- seven positive, one negative and seven neutral. Starbucks also was underpriced, but its rise on the first day of trading was a more modest 26.5 percent.

Pollock told Reuters that in his study, just published in the **Academy of Management Journal**, he chose to look at 1992 IPOs because that year, before the bubble of the late 1990s, was roughly equivalent to the market now.

Underpricing then was about the same as today, he said, an average 11.7 percent increase in share price on the first day of trading, compared with 12 percent now.

"Techs and biotechs tend to have more underpricing, but those are more uncertain," he said. "Financial companies, insurance firms are more stable with less underpricing."

‘PROPAGATOR OF LEGITIMACY'

Thus, the role of the press.

"The media serves as a propagator of legitimacy for a company because it does not just reflect existing public sentiment," said Pollock.

So what does that mean for two big-name IPOs expected soon -- Orbitz and Google? "Demand will be really high because of positive press coverage," he said.

If publicity counts, then two of a possible eight IPOs on tap this week could be heavily in demand -- China Life Insurance Co. and International Steel Group.

China Life's huge $2.5 billion offering is for a total of 153 million shares, about half of them American Depositary Shares in the United States.

The company, counting on heavy investor appetite for exposure to China's small but fast-growing insurance sector, hopes to price within the range $15.35 to $18.80 per share on Dec. 11 and trade on the New York Stock Exchange under the ticker symbol "LFC". It also will be listed on the Hong Kong bourse.

China Life expects to use net proceeds from the IPO for general corporate purposes and to strengthen its capital base. China International Capital Corp, Citigroup, Credit Suisse First Boston and Deutsche Bank are the joint bookrunners.

International Steel Group, the No. 2 North American integrated steelmaker by production capacity, is selling 15 million common shares at an estimated price range of $22 to $24 per share .

The Cleveland-based company said all the shares, which have a proposed New York Stock Exchange symbol of "ISG", are newly issued by the company and that no current shareholders will sell stock through the offering. The IPO will be co-led managed by Goldman Sachs and UBS Securities.

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