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IPO VIEW-"Blank-check" IPOs: Under the radar, but lucrative

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By Lilla Zuill

NEW YORK, Oct 5 (Reuters) - One of Europe's biggest hedge funds is about to gain a New York Stock Exchange listing -- in a most unconventional way.

GLG Partners, which has more than $21 billion in assets under management, will bypass the conventional initial public offering route, choosing instead to go public through a reverse merger with a "blank-check" company.

The GLG transaction highlights the growing stature of so-called blank-check companies, which sell shares to the public for the sole purpose of funding acquisitions.

Blank-check IPOs have been quietly booming -- and their growth has been helping some well-heeled investment managers, such as GLG's, sell shares to the public while bypassing some of the scrutiny that can accompany higher-profile IPOs.

GLG is run by former Lehman Brothers and Goldman Sachs executives and counts Dubai's Istithmar -- owner of luxury liner Queen Elizabeth 2 and tony Manhattan retailer Barneys -- and European private bank Sal. Oppenheimer as shareholders.

A heavy-hitter in Europe, GLG is little known in the United States -- but under its deal with Freedom Acquisition Holdings (FRH.A: Quote, Profile, Research), it is poised for a New York Stock Exchange listing.

The lack of fanfare means it is unlikely to be among 2007's hottest offerings, even if its expected market capitalization ranks it alongside some of the year's biggest U.S. flotations.

By its own estimate of nearly $3.5 billion, GLG's market value would be in the same league as MF Global Ltd (MF.N: Quote, Profile, Research), a U.S. brokerage spun off by London-hedge fund Man Group Plc (EMG.L: Quote, Profile, Research) this year, and about half the value of Blackstone Group (BX.N: Quote, Profile, Research), one of the most hyped, and volatile, IPOs of the year.

GAINING CLOUT

Almost $6 billion has been raised by blank-check IPOs this year, up from $3.4 billion last year, meaning this quiet corner of the IPO universe has accounted for some 15 percent of what mainstream IPOs have raised year-to-date.

"The number of transactions has increased, and the size has certainly increased from a few years ago, in the $50 million to $100 million range, and now we are seeing $400 million, $500 million," said Ted Roth, managing director for Roth Capital Partners, a Newport Beach, California-based firm that has helped create blank-check entities.

Blank-check offerings raised just $24 million in 2003, the first year they were floated to public investors, and $480 million in 2004, according to data tracker Dealogic. In 2005, such offerings generated $2 billion.

Also known as special purpose acquisition companies, they are basically shell companies, with no revenue or operating history -- just a management team promising acquisitions if the right opportunity presents itself.

"It is a case of buying into management," said Francis Gaskins, president of IPO research firm IPOdesktop.com.

Their robust payouts also attract investors, said another analyst who did not wish to be named. "The companies have nice dividend yields, an average of around 9.5 percent," and they do not pay corporate taxes, the analyst added.

Funds can be returned to investors if acquisition opportunities do not materialize over a set period of time.

RAISING EYEBROWS

Historically, blank-check companies have been viewed with some suspicion. But better-known management teams and higher-profile underwriters have helped upgrade their image.

Dallas-based sports tycoon Tom Hicks last month raised more than $550 million, a record for a blank-check IPO, with Hicks Acquisition Company I Inc.

Hicks, owner of the Texas Rangers baseball team, the Dallas Stars ice hockey team, and part owner of England's Chelsea Football Club, will use it to buy North American companies, a filing with the U.S. Securities and Exchange Commission said.

"You are getting top-line management, I think that is the key, you know you are getting a Tom Hicks, or others that have demonstrated a great deal of success," Roth said.

"Part of the suspicion (in years past) was because of a lack of understanding and because the structure was not well described. The people that are doing it now have a history of accomplishment in business and finance," he added.

While the ventures do have to make the customary IPO regulatory filings, they are also criticized as a backdoor pass to a U.S. listing. "They can go public without the exposure to the public," said IPOdesktop's Gaskins.

"They can do this without going on a roadshow, sitting under the scrutiny of analysts across the country," he said.

Roth said the low-profile nature of these deals was tied to the fact that the sector was only a few years old, and less than three dozen of the blank-check companies formed over that period have used all their funds to close on acquisitions.

But deals such as the GLG takeover and Hicks Acquisition look set both to test this kind of deal and raise its profile.

Increasing involvement by Wall Street investment banks will also raise interest. Citigroup was lead underwriter for both the Freedom Acquisition and Hicks Acquisition offerings.

(Additional reporting by Dan Wilchins)