

# THE DAILY DEAL

## PIPE market is glowing

by Luisa Beltran Posted 04:04 EST, 1, Aug 2007

PIPE, or private investment in public equities, is emerging as a hot fundraising tool for companies, with PIPE deal values increasing by 38% this year, according to a research group.

During the first half of 2007, PIPEs raised \$22.4 billion in equity and equity-like securities via 645 transactions, according to data from PlacementTracker. The average transaction size was \$34.8 million.

The amounts raised this year surpassed those of the same period a year ago, when more PIPE deals occurred but a significantly lower valuation was chalked up. According to PlacementTracker, a unit of Sagient Research Systems Inc., there were 702 PIPE transactions during the first half of 2006, raising \$16.2 billion.

John Borer, CEO of Rodman & Renshaw LLC, said the market for the tool is so hot that as much as \$40 billion could be raised this year. The New York investment bank was listed by PlacementTracker as handling the most PIPE deals in the first half.

James Cassel, vice chairman and head of investment banking at Miami-based Ladenburg Thalmann & Co., which also focuses on PIPEs, said the increase so far this year reflects the strength of the broad market.

"Forget the past few days," said Cassel, referring to the Dow Jones Industrial Average of more than 500 point sell-off last week. "Right now, people have jobs, inflation seems to be at a low, and the job market still seems to be good."

PIPE is a useful technique for raising capital, Cassel said. Such private financings allow companies to raise funds quickly, amounts usually ranging from less than \$1 million to as much as \$500 million.

Historically, the technique has been used by smaller businesses, but larger companies are now opting for it, too. In January, Kohlberg Kravis Roberts & Co. closed a \$700 million PIPE with Sun Microsystems Inc. Elevation Partners invested \$325 million via a PIPE into Palm Inc. in June.

"KKR probably wouldn't have considered this five years ago," said Aaron Gurewitz, Roth Capital Partners LLC managing director of equity capital markets. Roth came in second in PlacementTracker's league tables for the first half, handling 16 PIPEs.

"The credibility of the PIPE space has come to the level where quality institutions and quality companies are doing these deals," Gurewitz said.

Still, PIPE remains useful for midmarket companies that have problems raising funds through traditional means, like secondary offerings, shelf offerings or private placements without registration provisions.

Such firms usually include small businesses that don't have much liquidity or are in a disfavored sector. PIPE deals will allow these companies access to institutional investors, but at a quicker pace than the traditional route.

"You are not taking the market risk of waiting for the Securities and Exchange Commission to respond to a registration statement," said Gurewitz.

With a PIPE, companies can negotiate with investors, run a sale process and get a higher price, Cassel said. And the costs and expenses involved with a PIPE are generally lower than if the company opted for a secondary offering, he added.

But Gurewitz said PIPE deals are not just for troubled companies.

"This is not last-resort financing but more of a less-considered option," he said.

Chinese companies are also finding PIPE a useful tool. These businesses, which typically have operations in China but are publicly traded in the U.S. through the OTC Bulletin Board, use PIPE to attract investors.

"They are hoping to migrate to the Nasdaq or the Amex," Gurewitz said.

Hedge funds have also emerged as major PIPE players. During the first half of 2007, Iroquois Capital LP led the group in number of deals, 38 transactions raising \$26.5 million, according to PlacementTracker. But Highbridge International LLC raised \$421.3 million with its 24 PIPEs.

"Hedge funds have lots of capital and generally want to invest in securities with liquidity or liquid market," Cassel said.

Rodman & Renshaw acted as placement agent on the most PIPE deals so far this year, with 30 transactions raising \$544 million, PlacementTracker reported. Roth's 16 deals were valued at \$178.7 million.

But UBS, which acted on only eight PIPE transactions, generated the most money, \$2.6 billion, as a placement agent, PlacementTracker said.

Energy was the most popular sector for PIPE. About 23% of such transactions came from oil and gas, while pipelines accounted for 14%.

Pharmaceuticals came in third with 8%, PlacementTracker said.

The outlook for PIPE is strong, officials said.

"Unless the market completely dries up, there could be an increased level of activity in the market for PIPEs," Borer said.