

IPO update

Top-performing Accredited Home Lenders and the offering that almost wasn't

by Frances A. McMorris

Looking at the high-flying stock price of Accredited Home Lenders Holding Co. today, it's hard to believe that its initial public offering earlier this year almost never happened.

But on the eve of its debut, says company co-founder and chief executive officer James Konrath, "We had the investment bankers on the phone asking, 'Are we going or aren't we going?' We aired out all pros and cons basically at the last minute."

Accredited opted for the offering. And, as much as any other, that offering kicked off a mild resurgence in IPOs in 2003, although at the time that seemed a distant possibility. Indeed, Accredited Home, a subprime mortgage lender for single-family homes, went public in a notably inauspicious debut after six years of preparation.

Accredited Home was formed in 1991 by Konrath, a veteran of GE Capital Corp., and Ray McKewon, whose specialty was raising capital and who is now the company's executive vice president. In 1995 McKewon managed to raise financing from Crosspoint Venture Partners of Woodside, Calif., and La Jolla, Calif.-based Enterprise Partners Venture Capital.

The company made several false starts at going public beginning in 1997. But Konrath and McKewon kept tabling the ideas as they watched similar companies that had gone public go belly-up. "We took the advice [from investment banks] with a grain of salt and put it aside," he says.

Then in late 2001 and early 2002, as the dot-com bubble burst, they began to think IPO again. The VCs, Konrath said: "were reaching the end of their 10-year fund."

At an April 2002 board of directors

meeting in San Diego the company decided to pursue the public route. In July 2002, Accredited Home Lenders filed its registration statement with the Securities and Exchange Commission for an IPO of 9.3 million shares at \$9 each on the Nasdaq. A month later, it amended the filing, boosting the number of shares to nearly 10.2 million and the high end of the per share range to \$10.

Unfortunately, the SEC review was dragging on and the market was deteriorating. The company began to reconsider: Should it go public in the fall or wait for better conditions? "We found a stock market that was in a free fall," Konrath recalls. Instead, management decided to delay the IPO into 2003 and rely on third-quarter numbers to sell it.

In early January, the board decided to try again. But it was a uncertain time. The U.S. was on the brink of war with Iraq and the international situation wastense. Stock prices were hitting new lows with the Dow around 7,700. Oil prices were fluctuating.

So there had to be some changes. At the end of January, Accredited revised the number of shares down to 9.65 million but slightly increased the share price range to \$9-\$11. The road show began, with 79 presentations in 19 cities over three and one-half weeks. The reception? "Kind of a mixed bag," Konrath admits. On the plus side, the company could talk to lots of investors because IPOs were rare, and it had a real story to tell: The company had been around and had demonstrated earnings growth. The down side was the markets. "It was kind of disheartening to sell yourself and find out that the market had dropped 2% at the end of the day," he says.

The two weeks leading up to the mid-February IPO—the war was dead ahead—was gut-wrenching. The markets had plunged significantly enough that on Feb. 11, the day of the final share pricing, the company said it was moving the pricing day to Feb. 13. Word on the Street was that the share price would come in at \$8—a full dollar below the low end of the anticipated range.

That Thursday—the day before Valentine's Day—the company's board of directors convened to decide the fate of the offering. "It was a rather long and somewhat emotional discussion," Konrath recalls. "We had just spent the last six to nine months with the SEC and done those 70-odd meetings." In the end, every board member decided to forge ahead with the IPO and the underwriters, led by Friedman, Billings, Ramsey & Co., priced the 9.65 million shares at \$8 apiece.

They might have regretted that decision after the first day of trading. Accredited shares fell below its \$8 offer price to close at \$7.25. "That wasn't particularly heartwarming to see," Konrath admits. Nor did it get better quickly. The first month and a half, the stock price hovered around \$8. Konrath calls it "the agony period."

Then, in April, the economy picked up. The war with Iraq was essentially over, consumer sentiment surged and the Commerce Department reported a 7.3% jump in new home sales in March. The broader markets also shifted; the Dow surged to 8,300 by April 24.

Accredited stock price took off, helped by first quarter earnings that saw net income of \$14.8 million, a 170% increase over the same period a year earlier. In addition, revenues rose by 111%, to \$79.1 million. "After that the

mortgage industry got help," Konrath says. "The sector had good news, and so did we." Mortgage rates continued to drop, prompting another round of refinancings. The Mortgage Bankers

Association reported a 20% jump in its refinancing index in early May.

Accredited Home reported strong results again for the second quarter, racking up a 307% increase in net income to

\$25.8 million and 165% increase in revenue to \$108.2 million. Which may explain why it's the best performing IPO of 2003. Of course, who knew back on those fateful days in February.



IPOs 2003

	EXCHANGE	DATE OF FIRST TRADE	OFFER PRICE PER SHARE	FIRST-DAY CLOSE	CURRENT PRICE*	% CHANGE FROM OFFER PRICE
Accredited Home Lenders (LEND)	Nasdaq	2/14/03	\$8.00	\$7.25	\$23.93	199.0%
Acusphere (ACUS)	Nasdaq	10/8/03	14.00	14.03	11.10	DOWN 20.7
American Financial Realty Trust (AFR)	NYSE	6/25/03	12.50	14.25	15.22	21.8
AMIS Holdings (AMIS)	Nasdaq	9/24/03	20.00	20.10	20.30	1.5
Anchor Glass Container Corp. (AGCC)	Nasdaq	9/25/03	16.00	16.80	16.16	1.0
Ashford Hospitality (AHT)	NYSE	8/26/03	9.00	9.00	9.24	2.6
Axis Capital Holdings (AXS)	NYSE	7/1/03	22.00	25.55	24.90	13.2
CapitalSource (CSE)	NYSE	8/7/03	14.50	18.20	18.19	25.4
Chunghwa Telecom (CHT)	NYSE	7/17/03	14.24	14.35	15.26	7.2
Citadel Broadcasting (CDL)	NYSE	8/1/03	19.00	20.65	19.10	0.5
DigitalNet (DNET)	Nasdaq	10/10/03	17.00	20.95	21.00	23.5
Digital Theater Systems (DTSI)	Nasdaq	7/10/03	17.00	24.92	28.00	64.7
Direct General (DRCT)	Nasdaq	8/12/03	21.00	25.15	29.18	39.0
Endurance Specialty (ENH)	NYSE	2/28/03	23.00	23.00	29.10	26.5
FormFactor (FORM)	Nasdaq	6/12/03	14.00	17.58	26.07	86.2
Gladstone Commercial (GOOD)	Nasdaq	8/13/03	15.00	15.03	15.00	UNCHANGED
Infinity Property & Casualty (IPCC)	Nasdaq	2/21/03	16.00	15.90	29.65	85.3
Integrated Alarm Services Group (IASG)	Nasdaq	7/24/03	9.25	9.43	9.10	DOWN 1.6
InterVideo (IVII)	Nasdaq	7/17/03	14.00	18.69	17.17	22.6
iPass (IPAS)	Nasdaq	7/24/03	14.00	18.67	24.50	75.0
iPayment (IPMT)	Nasdaq	5/12/03	16.00	21.02	23.84	49.0
Journal Communications (JRN)	NYSE	9/24/03	15.00	16.25	17.05	13.6
LKQ Corp. (LKQX)	Nasdaq	10/3/03	13.00	15.00	16.01	23.1
Maguire Properties (MPG)	NYSE	6/25/03	19.00	19.00	21.45	12.8
Molina Healthcare (MOH)	NYSE	7/2/03	17.50	20.00	27.25	55.7
Netgear (NTGR)	Nasdaq	7/31/03	14.00	17.69	17.45	24.6
Providence Service (PRSC)	NYSE	8/19/03	12.00	14.00	15.26	27.1
Provident Financial Services (PFS)	NYSE	1/16/03	10.00	15.50	20.07	100.7
RedEnvelope Inc. (REDE)	Nasdaq	9/25/03	14.00	14.55	13.71	DOWN 2.07
RedlinePerformance Products (RED)	Amex	5/16/03	5.00	4.50	4.45	DOWN 1.1
SigmaTel (SGTL)	Nasdaq	9/19/03	15.00	19.80	23.20	54.60
Telkom SA (TKG)	NYSE	3/4/03	13.98	13.90	28.06	100.70
Texas Capital Bancshares (TCBI)	Nasdaq	8/13/03	11.00	11.99	13.52	22.90

*as of market close of trade Oct. 15, 2003

Source: The Deal