



Visa IPO prices at record \$17.9B

Credit card company's initial public offering surpasses estimates at \$44 a share.

By Katie Benner, writer-reporter

NEW YORK (Fortune) -- Visa buyers paid a whopping \$17.9 billion, or \$44 a share, when the company priced its initial public offering Tuesday evening.

The number punctuated a Wall Street comeback that included another Federal Reserve rate cut, surprisingly strong earnings results from Goldman Sachs and Lehman Brothers, and a 420-point spike in the Dow, its largest one-day point gain in five years.

The San Francisco-based credit card processor became the largest IPO ever, surpassing the \$11 billion record held by AT&T (T, Fortune 500) wireless as well as its own \$37 to \$42 a share price range.

As the markets surged Tuesday, Visa's lead underwriters JPMorgan (JPM, Fortune 500) and Goldman Sachs (GS, Fortune 500) spent the afternoon frantically tying up loose ends on one of the largest public offerings in history. Along with 17 other main underwriters and several smaller banks, JPMorgan and Goldman scrubbed the book of potential buyers to make sure that shares were going into the hands of holders, rather than quick sellers looking to make fast money on the landmark deal.

"They had to place Visa shares in strong hands. They didn't want another Blackstone debacle," says Scott Sweet, managing director of IPO research firm IPOBoutique.com. On Blackstone's (BX) first trading day, the very first trade of the day was a 19 million-share sale, which Sweet says was the largest stock flip in IPO history.

"When there were hedge funds dumping Blackstone after the IPO, it screwed people," says Sweet. "Goldman and JPMorgan worked all afternoon to weed out the opportunists, knowing that the stock will likely open strong [Wednesday]. It could be tempting to sell after the pop."

The Visa IPO comes amid a sea of troubles for the stock and the IPO markets. Before Tuesday, the three major indexes were down an average of 12% for the year as financial services companies struggle beneath the weight of bad asset-backed bonds. And the demise of Bear Stearns (BSC, Fortune 500), the latest victim of the lending blow-up, has Wall Street wondering who else could go out of business.

Since the beginning of the year, 21 IPOs have been cancelled and five have been postponed, according to IPO research firm Renaissance Capital. Meanwhile, the Renaissance IPO index, which tracks companies from their market debut until two years later, is down 26% for the year vs. 12% for the S&P 500 broad stock market index.

Even so, Visa buyers clamored for a piece of the credit card market leader. So far it looks like Visa sold its planned 406 million shares. IPOs generally have green shoe provisions, which means that the company can sell 10% more shares than planned to meet demand.

Visa (V) created a nice windfall for its owners, including its largest shareholder JPMorgan. The bank, which just picked up Bear Stearns (and its considerable debts) for \$236 million, made about \$1.3 billion on its 29 million shares of Visa.

JPMorgan was also the lead underwriter on the deal, which means that it took home the biggest slice of the fee pie. In exchange for moving shares into the hands of buyers, underwriters get to keep a percentage of the value of the shares sold. The exact fee jackpot is unknown, but it is estimated to exceed \$500 million. Other underwriters included Goldman Sachs, Bank of America, Citigroup, HSBC, UBS, Merrill Lynch, Wachovia and Wells Fargo.

But will Visa prove as lucrative for investors when it trades Wednesday?

Few dispute the fact that Visa is a company poised to deliver earnings growth for years to come. It is the largest U.S. card company in terms of number of transactions and dollar amount; and in its IPO prospectus it predicted that its overseas market share would see more than 18% compounded annual growth through 2012. More importantly, like main rival MasterCard (MA), it doesn't hold any consumer debt on its books.

Dan Davidowitz, a research analyst at Polen Capital Management, adds that the company is taking care of lawsuits that might otherwise concern investors. It settled its longstanding legal dispute with American Express (AXP, Fortune 500) over Visa's alleged non-competitive practices, and it is expected to settle a similar case with Discover.

In the immediate future, it may be hard for Visa to outrun a down market. "When markets turn around IPOs outperform the overall market, but untested companies fall out of favor when markets are down," says Kathy Smith, a principal at Renaissance.

And for the long-term, the biggest risk to Visa is that a worldwide recession reduces the use of both debit and credit cards, which would affect MasterCard as well, says David Menlow, director of IPOFinancial.com. For serious buyers, Menlow says it comes down to the strength of Visa itself. "The company is in the top quality tier and it's the number one company in its industry."