Avoid IPOs With Helicopter Parents, Traders Warned

By Drew Singer / Bloomberg News

Traders looking for the next winning IPO should seek carve-outs that make a clean break from their parent companies, according to a new study.

IPOs from carved-out businesses outperform when their parent company fully exits an ownership stake, compared to those in which parents keep a position after the listing. That's according to a new study presented on Tuesday by accounting firm KPMG AG and The Edge Consulting Group -- a research firm that focuses on spinoffs -- to a group of fund managers.

One year after going public via an initial public offering, stocks partially owned by their old parents closed slightly below their IPO prices on average. Stocks that were fully divested from their parents rose 26% over the same span, according to the study. The research was presented as part of a virtual conference on spinoffs to benefit the Alzheimer's Association.

Although ownership stakes by parents could be a negative sign for an IPO, other relationships with the remainco remain valuable after a carve-out. The study found a positive correlation between IPO performance and the duration of transitional service agreements, in which the parent continues to provide some support to the spinoff after it goes public. These agreements most commonly give the spinoff help in areas such as information technology and human resources.

But even these agreements shouldn't last forever, according to KPMG's William Steciak.

"Many parent companies are not in the business of providing these services," he told the investors. "And the longer they stay involved, the more hiccups you can get." The study examined 45 public capital markets carve-outs across the globe, with a focus on the U.S. and Europe.

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