An Analysis of Leasing Company IPOs

By James M. Johnson, PhD

During the past decade or so, 24 leasing companies[1] filed with the U.S. Securities and Exchange Commission (SEC) to take their companies public. Three company filers were either foreign owned or only nominally went public. Five issues were pulled for various reasons. Nineteen U.S. leasing companies, however, were successful in going public.

The purpose of this article is to identify and examine the companies that went through SEC registration. Who are they? What was the purpose in going public? What was the size of their securities offerings? Are leasing initial public offerings (IPOs) typical of IPOs generally? Who took them public? Were they startups or "seasoned" companies? Were they making or losing money? The author has been unable to find a study focusing on IPOs related to leasing and believes the questions raised above and others discussed in this article will be of interest to the industry.[2]

Why does a leasing company attempt to go public? Twenty-four have filed since 1994, and 9 succeeded in going public. Here is a look at their initial public offerings.

IPO REGISTRANTS

Nineteen leasing companies went public from 1994 through 2005. This is a very small fraction of all 3,326 companies going public during the same time period.[3] However, this relatively small number should not be surprising for a mature industry. In addition, the apparently small number is somewhat misleading, because a number of companies have gone public that are engaged in equipment leasing as a significant activity, but not their primary activity.

Table 1 summarizes the 24 leasing companies that filed with the SEC during the 1994 through 2005 time period.[4] The companies are arranged into four groups.

- Panel A summarizes the companies that underwent successful IPOs that were relatively small in size.
- Panel B contains the four major leasing IPOs in terms of company and IPO size.
- Panel C exhibits three IPOs—two are by foreign companies, and the third was an extremely small U.S. IPO.
- Panel D shows the IPOs whose registrations were withdrawn.

For each IPO, the table displays the month and year that the IPO was filed, the date the IPO selling period ended (IPO end date), or, in the case of the Panel D companies, the date the IPO was withdrawn. The offering price per share (or contemplated offering price, in the case of Panel D companies) and the offering size (in millions of dollars) are reported next, along with two estimates of the relative size of the offering.

Issue Size

The Ritter size class indicates to which of the nine IPO size classes reported by Ritter each issue belongs. It is one way of determining the size of leasing IPOs relative to all IPO offerings.[5] A Ritter size class of 1 records issues between $2 million and $9.9 million. Class 9 includes IPOs of $500 million and up. The second relative size proxy is the "Same or Smaller Issue Percentage" value. The Same or Smaller percentage calculates the percentage of all IPOs in the same size group or a smaller size group. Because Modern Medical Modalities is in the smallest group, its Same or Smaller percentage is 19, whereas CIT, in the largest group, has a Same or Smaller percentage of 100.

Underwriters

The last two variables shown in Table 1 are the lead underwriter and an estimate of the underwriter's reputation. Estimates of underwriter reputation, or prestige, provide an indication of an IPO's riskiness. According to a study by Johnson and Mill,[6] IPOs underwritten by pres-

Editor's note: This article is intended as a first look at leasing company IPOs; many more questions about IPOs remain to be addressed. Readers with ideas for topics that should be addressed in a follow-up article should be sent to Lisa Levine at llevine@elamail.com.

Table 1

Summary of Twenty-Four Leasing Company Registrants: 1994-2005

	IPO, Pulled or Other	Company	Age of IPO Firm	SEC Filed, Pulled or IPO End Date	Offering Price Per Share	Offering Size (millions)	Ritter Size Class[a]	Same or Smaller Issues %	Underwriter	Underwriter Reputation[b]
Panel A	IPO	Financing for Science International	8	1994/05	6.40	16	2	41	Sands Brothers	4.1
	IPO	First Sierra Financial	3	1997/05	8.00	16	2	41	Friedman, Billings, Ramsey	5.1
	IPO	Granite Financial	1	1996/07	7.50	11	2	41	Cruttenden Roth	3.1
	IPO	LINC Capital	21	1997/09	13.00	26	3	71	Furman Selz Inc.	7.1
	IPO	Marlin Business Services	6	2003/11	14.00	62	5	87	U.S. Bancorp Piper Jaffray	7.1
	IPO	Micro Financial	12	1999/02	15.00	60	5	87	Salomon Smith Barney	9.1
	IPO	Mitcham Industries	10	1997/03	3.06	9	1	19	Barron Chase Securities	2.1
	IPO	MLC Holdings	6	1996/11	8.75	9	1	19	Friedman, Billings, Ramsey	5.1
	IPO	Modern Medical Modalities	7	1994/02	5.00	2	1	19	Harriman Group	2.1
	IPO	Paramount Financial	4	1996/01	3.50	10	2	41	Stratton Oakmont	1.1
	IPO	T & W Financial	22	1997/11	16.00	41	4	83	Oppenheimer & Company	8.1
	IPO	Willis Lease Finance	9	1996/09	8.00	16	2	41	Wedbush Morgan Securities	5.1
	Averages		9		9.02	23	3	49		4.9
Panel B	IPO	Associates First Capital	78	1996/05	29.00	1,943	9	100	Goldman, Sachs	9.1
	IPO	CIT Group	94	2002/07	23.00	4,600	9	100	Goldman, Sachs	9.1
	IPO	Heller Financial	79	1998/04	27.00	1,040	9	100	Goldman, Sachs	9.1
	IPO	UniCapital Corp	-	1998/05	19.00	532	9	100	Morgan Stanley Dean Witter Discover	9.1
	Averages		63		24.50	2,029	9	100		9.1
Panel C	Foreign	Indigo Aviation AB	10	1998/04	13.00	43	4	83	Salomon Smith Barney	9.1
	Foreign	Pride Automotive Group	1	1996/04	5.00	5	1	19	Mason Hill & Company	2.1
	Micro issue	Heartland Wisconsin Corp.	3	1998/03	5.25	0[c]	1	19	J.E. Liss & Company	n.a.
	Averages		5		7.75	16	2	40		5.6
Panel D	Withdrawn	American Finance Group	3	1998/05	14.00[d]	30[e]	3	71	Legg Mason Wood Walker	7.1
	Withdrawn	Fidelity Leasing	3	2002/05	18.00[d]	70[e]	5	87	BancBoston Robertson Stephens	8.1
	Withdrawn	Financial Pacific	29	2004/07	13.00[d]	70[e]	5	87	Banc of America Securities	8.1
	Withdrawn	ICON Holdings	1	1998/09	9.00[d]	112[e]	7	96	Friedman, Billings, Ramsey	5.1
	Withdrawn	BankVest	8	1998/09	n.a.	n.a.	n.a.	n.a.	Piper Jaffray	7.1
	Averages		9		13.50	71	5	85		7.1
Overall Percentages			17		12.08		4	63		6.2

Source: Various SEC filings of the registrants, and published research by Jay Ritter, et. al.

[a]Based on the size classes reported in Ritter et al., The Cost of Raising Capital. 1 is the smallest class, 9 the largest class.
[b]Underwriter reputation is ranked on a scale of 1.1 to 9.1, with 9.1 being the highest reputation ranking by Carter and Manaster.
[c]Estimated offering was $250,000.
[d]Expected offering price - issue did not go public.
[e]Estimated offering size - issue did not go public.

tigious (higher reputation) underwriters were found to be less risky in tests using proxies for ex ante (expected) uncertainty. This will be further explained below.

Issue Timing

In terms of timing, 14 of the 19 successful IPOs went public in the 1996-to-1998 window. Since 1999, only three companies have gone public. Though there may be many reasons for this IPO timing of leasing companies, there is a long-held belief that the success of leasing tends to be positively correlated with the level of interest rates. Thus it is noted that from 1994 through 1998, the average 5-year U.S. Treasury note rate was 6.1 percent, whereas the average Treasury rate from 1999 through 2004 was 4.4%, a decline of 170 basis points. The average Treasury note rate during the 2002 through 2004 time frame has averaged 3.4%, or 270 basis points lower than the 1994-1998 average.[7]

Some leasing industry executives interviewed for this article expressed concern about the falloff in leasing-related IPOs. If the proportions of leasing companies going public during the 1994-2003 window are compared to all IPOs, that concern would appear to be unfounded. Table 2 shows the number and percentage of IPOs for leasing companies and all IPOs are shown. Eight of the 19 leasing IPOs, or 42%, went public during the 1994-1996 time period, which was comparable to 1,440 (or 46%) of all IPOs going public during the same time frame.

Between the double-barreled effects of September 11 and the economic downturn in 2000, the IPO market in general contracted significantly. The total number of IPOs in 2000 was 346, falling to only 76 in 2001—the lowest total number of IPOs since 1980. Thus the *proportions* of leasing-related IPOs coming to market before and after 2000 appears to closely mirror the IPO market generally.

The Age of IPO Firms

The age of leasing IPOs clearly shows that the typical leasing company IPO is not a "development stage"[8] or startup business. One company—UniCapital—is listed as being new but that is deceiving. UniCapital was formed as a portfolio of seasoned leasing companies. Unicapital itself was a "startup," but in substance it was a seasoned business. Two companies—Granite Financial and Pride Automotive Group—were a year old when they underwent their IPOs. The average age of the smaller Panel A IPOs was 9 years when they went public. The average age of the "big four" is shown as 63 years, but is even higher if Unicapital is adjusted for the average age of its component companies. The average age of the foreign and micro IPO (Heartland Wisconsin Corp.) is 5 years. Even among the withdrawn issues, the average age is 9 years.

The overall average age of leasing IPOs shown in all four panels of Table 1 is misleading, given that the age distribution is quite skewed. Thus to estimate whether leasing IPOs are similar in firm age to IPOs generally, the median age of the 19 successful leasing IPOs was compared to the median age of IPOs in general. The median age of successful leasing IPOs is 8 years. This is almost identical to the median age of all IPOs issued during the 1980-2003 time period, which is 7 years. The aggregate IPO age was 8 years during

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Table 2

IPOs by Time Period

Time Period	Leasing IPOs		All IPOs	
	Number	Percent	Number	Percent
1994-1996	8	42	1,440	46
1997-2000	9	47	1,502	48
2001-2003	2	11	205	6
Total	19	100	3,147	100

Source: Data for the "All IPOs" category is adapted from Jay Ritter, "Some Factoids About the 2004 IPO Market" (working paper, University of Florida, Gainesville, February 2005).

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the 1990-1994 subperiod, 7 years in the 1995-1998 range; 5 in the 1999-2000 range; and 12 in the 2001-2003 time period.[9] Thus the age of leasing IPOs appears to be quite similar to IPOs generally.

Offer Price and Issue Size

Of the 19 successful IPOs shown in panels A, B, and C, there is a relationship between offering price per share and offering size. The eight smallest issues were offered at prices ranging from $3.06 to $8.75 per share. The eight largest issues were offered at prices ranging from $13 to $23 per share. Also, the four largest issues shown in Panel B were offered for $19 to $29 per share, whereas the highest price per share of the remaining 15 firms was $16.

Perhaps the most striking feature of Table 1 is the difference in issue size across the offerings. The big four in Panel B had offering sizes ranging from $532 million to $4.6 billion. This is in sharp contrast to the Panel A and Panel C IPOs, which range from a few hundred thousand dollars (Heartland Wisconsin) to $62 million (Marlin Business Services). The average offering size of the big four is in excess of $2 billion, whereas the average offering size of the remaining 15 is less than $22 million.

To get a better idea of how the size of leasing IPOs compares to the general IPO market, we can analyze the Ritter Size Class and Same or Smaller Issue columns. In a study by Lee, Lochhead, and Ritter,[10] IPOs were grouped into nine size categories, ranging from category 1 ($2 million to $9.9 million) to category 9 ($500 million and up).[11] Three of the Panel A IPOs were in the smallest Ritter size category and an additional five were in the second smallest size group. The largest Panel A issues (Marlin and Micro Financial) were in category five. The big four leasing IPOs in Panel B all rate in the highest Ritter size category, whereas the Panel C companies fall in the smallest category in two cases and the fourth class in one case. The withdrawn issues averaged a category 5 ranking. The overall average of these issues is four, suggesting that the "typical" leasing IPO is somewhat smaller than average.

Next we examine the Same or Smaller percentages. Here, the three smallest issues in Panel A are in a group that collectively accounted for 19% of all IPOs. Another five issues were in a size group that accounted for 22% of all IPOs. The percentage shown in Table 1 indicates the percentage of all IPOs in the same or smaller size group of the company being analyzed, which is 41% for these five IPOs. Overall, the Panel A IPOs are in the 49th percentile (not entirely accurate, but an approximation). All Panel B IPOs are in the largest group, whereas the Panel C IPOs are split: Indigo Aviation in the 83rd percentile with the other two issues in the smallest size category.

If the typical leasing IPO were typical of all IPOs, the average Same or Smaller percentage would be 50. The average Same or Smaller percentage is 63 when the five withdrawn issues are included. If instead they are excluded, the percentage is 58. This suggests the typical leasing IPO is a little larger than average for IPOs generally, but with the wide variation, we conclude that they are more or less typical of IPOs in general.

Underwriter Reputation

Underwriter reputation is by far the highest for the big four leasing companies. The Panel A companies, all of which are substantially smaller in size, have an average underwriter reputation rating of 4.9, which is about average for all underwriters. (They are ranked on a scale from 1.1 to 9.1.) Based on the previously discussed linkage between underwriter reputation and perceived riskiness of IPOs, it appears that leasing IPOs were not considered more or less risky than IPOs generally. All five of the withdrawn issues had lined up underwriters that ranked no lower than 5.1, and averaged 7.1 in terms of reputation.

DISCUSSION BY IPO GROUP

Panel A IPOs: Twelve Smaller Companies

The 12 IPOs going public and operating in U.S. markets had an average offering size of $23 million. Of the 12 issues, note that eight of them went public during the 1996-1997 time frame.

Only two issues came to market between 1998 and 2003, and at this writing, there are no issues on the calendar. Also noteworthy is the relationship between offering size and offering price per share. The four largest issues (LINC, Marlin, Micro, and T&W) have an average offering price of $14.50. This compares to the smaller eight issues, with an average offering price of $6.27.

Panel B IPOs: The Big Four

These IPOs are substantially larger than all others. The big three had been in business between 79 and 94 years at the time of their IPOs. UniCapital was a seasoned business as well. Because it is a composite of a dozen established leasing companies, it is more difficult to estimate UniCapital's age, but it is considerably older than its legal life of a few months at the time of the IPO offering. These four firms had the highest offering prices per share—and by far the largest offering sizes, ranging from half a billion to $4.6 billion in size. It may also be noted that their lead underwriters are among the more prestigious.

Panel C IPOs: Foreign and Micro Issues

Pride Automotive Group, Indigo Aviation AB, and Heartland Wisconsin Corp. all went public, and did so during the 1996-1998 time frame. The first two are foreign issues. Pride Automotive was formed by its parent, Pride Inc., in March 1995 for the purpose of acquiring all the shares of Pride Management Services, an English corporation that operated six companies including a leasing company. Indigo Aviation AB is a Swedish company engaged in the business of leasing commercial jet aircraft worldwide.[12] However, the only filings they have made with the SEC were in 1999. The filings are exclusively forms 13Ds, 13Es and 14Ds. From this, it is difficult to determine whether they have a significant presence in the U.S. market.

The final company, Heartland Wisconsin, is a challenge to pin down. It was incorporated in 1995 to provide financing for crane sales of Giuffe Brothers Cranes Inc. It does not appear that the firm ever sold its shares to the public. The available statements of cash flows indicate one bump in common stock financing, and that is attributable to two owners each contributing $125,000 to the firm's capital. They appear to have completed a small note offering to the public, which would explain why they went through the registration process. Their only SEC filings were from March 1998 through March 1999.[13]

Panel D IPOs: The Withdrawn Issues

Five leasing companies filed with the SEC as a prelude to going public but subsequently withdrew their issues. Three of these issues were pulled because the companies obtained buyout offers from other companies. A fourth company developed problems with its underwriter, and the fifth one suffered financial reverses, making the IPO infeasible.

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American Finance Group

American Finance Group (AFG) was incorporated in 1995 as a wholly owned subsidiary of PLM International. AFG specialized in equipment leases to investment grade Fortune 1000 companies and originated $347 million in new leases in 1996 and 1997 combined. AFG focuses on middle-market and larger ticket transactions and structured finance. PLM made the decision to sell an approximately one-third interest in AFG in an IPO for an estimated $32 million. The IPO was withdrawn in March 1999, and the filing statement indicated PLM had decided to sell AFG in its entirety rather than sell a public ownership interest through an IPO. PLM subsequently sold AFG to Guaranty Federal Bank in March 2000.

Fidelity Leasing

Fidelity Leasing was incorporated in 1996 as a subsidiary of Resource America. Fidelity focused on the small-business market with what it referred to as a sophisticated e-commerce technology platform. Its average ticket size was $14,000. An S-1 registration statement was filed with the SEC in July 1999 to raise a maximum of $85 million. The S-1 was amended in September 1999, with no further filings until 2002. In May 2002, a request for withdrawal of registration was filed with the SEC, indicating that Fidelity had been merged into CitiCapital.

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Financial Pacific was the most recently withdrawn IPO that was sold to another firm. Founded in 1975, it focused on small-ticket leases. In 2003, Financial Pacific closed $98 million in new lease originations with an average ticket size of $18,000. An SEC filing was made in April 2004, only to be withdrawn in July 2004. The reason for the withdrawal was that Financial Pacific would be acquired by Allied Capital Corp.

All three of these IPO registrants were subsidiaries of other companies. All three were established, profitable companies at the time of their registrations. Two of them focused on the small-ticket business. In all three cases, the parent company decided to pursue offers to sell the subsidiaries in their entirety to other businesses rather than sell shares to the public. The focus of the IPOs was on providing the parent with an exit strategy rather than raise financing for the company itself.

ICON Holdings

ICON Holdings filed its registration statement in 1997. The firm was formed in 1985 and acquired "seasoned" large-ticket deals for ICON Partnerships. The IPO was to have provided the

Table 3

Financial Characteristics of IPOs

	Company	Total Assets	Owners Equity	Revenue	Net Income	Debt/ Equity	Return on Equity
Panel A	Financing for Science International	225.45	27.32	12.21	0.34	7.25	1.23
	First Sierra Financial	79.34	1.78	6.32	1.16	43.52	64.93
	Granite Financial	32.35	8.75	21.86	0.76	2.70	8.72
	LINC Capital	67.20	13.07	22.60	1.06	4.14	8.09
	Marlin Business Services	364.17	4.20	24.64	4.53	85.71	107.86
	Micro Financial	179.70	15.47	68.18	7.65	10.61	49.46
	Mitcham Industries	8.20	7.11	5.28	1.00	0.15	14.06
	MLC Holdings	29.84	2.07	42.80	1.61	13.42	77.82
	Modern Medical Modalities	16.54	4.16	2.98	(0.07)	2.98	(1.76)
	Paramount Financial	12.38	4.81	9.21	0.29	1.57	6.04
	T & W Financial	144.44	9.92	19.50	5.83	13.56	58.73
	Willis Lease Finance	173.02	29.16	39.79	5.74	4.93	19.68
	Averages	111.05	10.55	22.95	2.49	15.88	34.57
Panel B	Associates First Capital	41,303.90	4,618.95	6,107.20	723.10	7.94	15.66
	CIT Group	48,327.30	5,706.65	594.70	156.20	7.47	2.74
	Heller Financial	12,861.00	1,572.50	924.00	158.00	7.18	10.05
	UniCapital	625.45	124.50	240.40	37.20	4.02	29.88
	Averages	25,779.41	3,005.65	1,966.58	268.63	6.65	14.58
Panel C	Indigo Aviation AB	na	na	na	na	na	na
	Pride Automotive Group	33.69	10.94	9.72	(0.60)	2.08	(5.48)
	Heartland Wisconsin Corp.	1.43	1.08	0.74	-	0.32	-
	Averages	17.56	6.01	5.23	(0.30)	1.20	(2.74)
Panel D	American Finance Group	151.47	18.93	20.67	2.11	7.00	11.15
	Fidelity Leasing	32.27	3.87	11.08	2.41	7.34	62.27
	Financial Pacific	195.79	188.03	23.67	5.85	0.04	3.11
	ICON Holdings	11.67	9.86	13.84	1.02	0.18	10.34
	BankVest	60.36	3.02	9.06	0.40	18.99	13.25
	Averages	90.31	44.74	15.66	2.36	6.71	20.02

Dollar amounts shown in millions.

firm with funds to permit ICON to own large-ticket deals for its own account. Two requests for withdrawal were filed—the first in February 1998 and the second in September 1998. The first request contemplated a second registration later in the year. The second request did not indicate any expectation of a subsequent filing.

The indication by the company[14] as to its reasons for withdrawal, in order of importance, were (1) the IPO market window for many issuers closed before ICON's offering could get on its underwriter's calendar, (2) weaknesses in the market led to some reduction in ICON's valuation, and (3) ICON lost confidence in its underwriter. Due to these underwriting frustrations, ICON decided to continue funding transactions into its partnerships rather than revisit IPO possibilities.

BankVest Capital Corp.

BankVest Capital Corp. is the only company among the 24 to be liquidated as a result of a failed IPO. BankVest began active operations in 1994, and filed its registration statement in September 1998. BankVest specialized in small-ticket leases and had an average transaction size of $22,000. The offering was never made: it ran into funding problems brought about by suspected asset quality.[15] The company ultimately was liquidated. BankVest never filed a request for withdrawal statement with the SEC.

FINANCIAL CHARACTERISTICS OF LEASING IPOS

Table 3 (page 6) summarizes size, leverage, and profitability measures for the 24 leasing IPO registrants. All data are taken from SEC filings for the most recent year prior to the IPO. For the Panel A IPOs, total assets range from a very small $8 million for Mitcham Industries to $364 million for Marlin. All firms exhibit positive net worth, ranging from $1.8 million for First Sierra to $29 million for Willis Lease Finance. Revenues range from about $3 million (Modern Medical Modalities) to $68 million (Micro Financial). All except Modern Medical were profitable by net income as a measure, with Micro Financial reporting the highest net income at $7.65 million.

The Panel A IPOs show a wide variation in terms of their debt-equity ratios and return on owner's equity (ROE). Debt-equity ratios range from 0.2 for Mitcham Industries to 85 for Marlin. The average debt-equity ratio is 15.9, which is considerably higher than the average reported in the Equipment Leasing Association's *Survey of Industry Activity* (SIA) for 1994 forward. Debt-equity ratios reported in the SIAs are in the 5 to 7 range. However, if the highest two (outlier) debt-equity companies are removed—Marlin and First Sierra—the average debt-equity ratio declines to 6.1 times.

ROE ranges from a negative 1.8% for Modern Medical Modalities to 107% in the case of Marlin. The average ROE of the 12 companies is 34.6% —considerably higher than the SIA average of 13% to 15%. Even if the two highest ROE companies are removed, the resulting ROE is still 24.2%—considerably higher than the SIA averages. Thus the Panel A IPOs tend to be "typically" leveraged on average and are relatively profitable as measured by ROE.

Among the big four companies summarized in Panel B, all are profitable, and all exhibit debt-equity ratios similar to the SIA averages. Although UniCapital is much smaller than the big three, it is still many times larger than any Panel A leasing company. As a group, the big four's return on equity is close to the SIA numbers. It may be surprising to note that CIT's return on equity was a modest 2.7%, whereas "startup" UniCapital reported a very high 29.9% ROE. On the other hand, it is important to remember that this data is only for one year: the year just prior to the IPOs.

Due to data limitations and the small size of this group, there is not much to say about the Panel C IPOs. Indigo Aviation has never filed a registration statement with the SEC, a 10K or a 10Q. As a result, we have no financial information regarding the firm. Heartland Wisconsin is operating at close to breakeven. (It made $70,000 in the year prior to its IPO.) Pride Automotive has

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Leasing company IPOs tend to be much more profitable than other IPOs, based on the proportion of them reporting positive versus negative earnings.

Table 4

Percentage of IPOs with Negative Earnings per Share

Years	All IPOs	Leasing IPOs
1994	27	50
1995-1996	36	17
1997-1998	40	0
1999-2000	79	0
2001-2002	49	0
2003	45	0
Average	47	11

Source: Data for the "All IPOs" category is adapted from Jay Ritter, "Some Factoids About the 2004 IPO Market" (working paper, University of Florida, Gainesville, February 2005).

relatively low leverage, with a debt-equity ratio of 2, but lost money, resulting in a negative ROE of 5.48%.

The five withdrawn issues had total assets from $11 million to $195 million. Owner's equity runs from $3 million to $188 million. As a class, the withdrawn issues have SIA typical debt-equity ratios of 6.7 times, and an above average 20% ROE. All the withdrawn issues have positive net worth and are profitable.

The average debt-equity ratio of the big four leasing companies was 6.65, about the average for leasing companies reported in the SIA surveys. The average debt-equity ratio of the remaining successful IPOs was 13.8, which is roughly double the SIA average.

Leasing company IPOs tend to be much more profitable than other IPOs, based on the proportion of them reporting positive versus negative earnings. Table 4 shows the percentage of all IPOs and leasing IPOs with negative earnings for the years being studied.

The percentage of all IPOs with negative earnings per share peaked at an amazing 79% during the 1999-2000 period, when dot-com offerings were peaking. Surprisingly, the percentage of unprofitable IPOs has remained relatively high since the dot-com bubble, with an overall weighted average of almost half losing money (47%). In sharp contrast, only 11% (two issues) of leasing IPOs reported losses in the year ended just prior to their offering. Further, no leasing IPO has reported a loss since 1996. It would appear, then, that leasing IPOs are of a much higher average profitability than nonleasing IPOs.

The relatively profitable picture shown by leasing IPOs is not attributable to the tech or dot-com bubble, however. In a study by Peristiani and Hong,[16] IPOs are sorted into "tech-Internet" and "other" groups. The deterioration in reported earnings per share from 1980 through 2000 for tech-Internet firms is significant, with the steady decline from $0.77 per share in the 1980-84 period to losses during the entire decade of the 1990s. Although higher earnings are reported for "other" IPOs, they also steadily declined from 1980 through 2000. During the first and second half of the 1980s and 1990s, average earnings per share of "other" IPOs were $1.29, $1.01, $0.32, and -$0.45. As shown above, there is no comparable trend for leasing IPOs. If there is a trend, it is the opposite of other IPOs, with one loss company going public in the leasing business in 1996 and none since.

IPO MOTIVATION

Table 5 focuses on the motivations provided by firms for executing an IPO. The first data column estimates the percentage of IPO proceeds that will accrue to the company going public. The proceeds not going to the IPO company go to the owners who are selling all or a portion of their stock. Thus, 100% estimates that all of the proceeds go to the IPO company as a source of financing. After examining the registration statements of all 24 companies, we see that their stated reasons for going public were put on one or more of five categories. "General corporate purposes" does not convey much information, but a few companies gave this as their only reason for going public.

Although the statements provided many characterizations of debt, they all had the same theme: paying off or retiring some of the firm's indebtedness. The category "Increase SG&A" captures reasons ranging from investing in better

systems to putting more money into marketing to acquiring better software solutions. The common denominator is that the IPO company will increase its overhead in an effort to improve its businesses. Some companies indicated a use of proceeds would be to purchase more lease assets or portfolios. A few indicated some of the proceeds would be used to make acquisitions, and cashing out their former parent company was a major reason for four of the firms.

The percentage of IPO proceeds is shown for each firm and the average for their panel. The percentages shown for each of the six IPO reason categories indicate the proportion of firms in that panel that gave a particular reason. For example, nine out of 12 Panel A companies indicated a use of IPO proceeds would be to pay down their debt. This is shown as 75%.

For the Panel A companies, IPO issue proceeds accruing to the company average over 90% of total share offerings.[17] In no case are proceeds to the company less than 70%. This is an indication that the *primary* motivation to go public is to raise capital—not to serve as a vehicle for the existing

Table 5

Motivations for the IPO

	Company	% of Proceeds to Firm	General Corporate Purposes	Pay Down Debt	Increase SG&A	Acquire Lease Assets	Make Acquisitions	Cash Out Parent
Panel A	Financing for Science International	100	x					
	First Sierra Financial	100		x			x	
	Granite Financial	100	x	x	x			
	LINC Capital	100		x				
	Marlin Business Services	70	x	x				
	Micro Financial	90	x	x			x	
	Mitcham Industries	83	x	x	x	x		
	MLC Holdings	100	x	x				
	Modern Medical Modalities	100	x					
	Paramount Financial	90		x	x	x		
	T & W Financial	86	x	x		x		
	Willis Lease Finance	100	x	x		x		
	Average percentages	93	75	75	17	33	17	-
Panel B	Associates First Capital	0*	x	x				x
	CIT Group	-						x
	Heller Financial	0*						x
	UniCapital Corp	26**	x	x			x	x
	Average percentages	7	50	50	-	-	25	100
Panel C	Indigo Aviation AB	88	x			x		
	Pride Automotive Group	53		x	x	x		
	Heartland Wisconsin Corp.	100	x	x				
	Average percentages	62	67	67	33	67	-	-
Panel D	American Finance Group	73	x	x				
	Fidelity Leasing	100			x			
	Financial Pacific	50		x				
	ICON Holdings	100	x	x		x		
	BankVest	na	x	x				
	Average percentages	81	60	80	20	20	-	-
Overall Percentages			84	89	21	37	16	21

*Technically, the proceeds were paid to the company, but the company in turn paid a dividend that was largely offsetting to the selling parent company.
**It is estimated that 74 percent of proceeds were used to purchase seventeen leasing companies. The remaining 26 percent went to the company for the purposes indicated.

This is a fairly typical pattern in corporate finance: relatively small, higher growth companies tend to "outrun their equity" as they take advantage of investment opportunities.

owners to cash out. This is in striking contrast to the big four IPOs. In that case, all four of the firms were using the IPO as a vehicle to cash out the former parent company.[18]

As indicated previously, "general corporate purposes" does not shed much light on a firm's motivation to launch an IPO, but 75% of the Panel A companies indicated that paying down debt was an IPO objective. A distant second reason was to acquire lease assets (33%). The issuance of equity to pay down debt indicates the IPOs were designed in large part to assist in financially restructuring the companies.

The primary objective of the IPO for the big four shown in Panel B was to provide an exit vehicle for the parent companies. Associates First Capital was being sold by its then parent Ford Motor Company. In its 10K statement filing, Associates reported a sale of $1.85 billion in Class A common stock and a cash dividend payment of $1.9 billion to Ford Motor. Heller Financial was owned by a subsidiary of Fuji Bank prior to going public. In its 10K, Heller disclosed an issuance of $991 million in stock to the public and a cash dividend of $1 billion paid to Fuji Bank. In the case of Tyco, CIT's former parent, it completed the sale of all its shares in CIT in an IPO worth $4.6 billion.

UniCapital had the same primary objective as the big three, but with a twist. UniCapital was founded in 1997 and commenced operations in 1998. Its IPO proceeds were used to acquire 17 leasing companies. The first 12 companies were actually purchased out of the IPO proceeds, with the next five acquisitions taking place by the end of the summer of 1998—the year in which the IPO was made. According to its registration statement (S-1) filing document dated Feb. 20, 1998, the majority of the proceeds of the IPO were used to pay the cash portion of the purchase price for the 12 "founding companies."[19] In addition, the IPO proceeds were to be used to repay indebtedness and for general corporate purposes, including future acquisitions. Thus a very significant portion of the IPO was used to cash out the companies that became UniCapital.

The primary purpose of these IPOs was to provide an exit vehicle for their parent, and in the case of UniCapital, its 12 parent companies. The IPO was not used to raise significant financing for the former subsidiaries to grow their businesses. Although Associates and UniCapital each provided additional reasons (pay down debt, make acquisitions), the relationship between the cash paid out to their parents in the form of acquisitions (UniCapital) or dividends (Associates and Heller), it apparently did not leave much money to accomplish the secondary objectives.

The difference in the use of the proceeds is striking. The Panel A and Panel C IPOs needed the IPO to get a needed infusion of equity capital to better balance their capital structures and improve their chances of additional future borrowings. Five of the Panel A companies had debt-equity ratios well above the average of the Panel B big four and well above the SIA averages reported during the years being studied (6 to 7 times range). The big four Panel B lessors had debt-equity relationships that closely mirrored those of the SIA values reported; thus debt reduction did not appear to be a strong motivation for going public.

This is a fairly typical pattern in corporate finance: relatively small, higher growth companies tend to "outrun their equity" as they take advantage of investment opportunities. At some point, it becomes necessary either to curtail significant growth or to gain an infusion of equity, or some combination of both. Larger, more established firms do not tend to outrun their equity to the same degree. They are able to borrow as needed with new, retained income as the cushion for new borrowings.

EQUIPMENT AND CUSTOMER FOCUS

Table 6 summarizes the equipment focus of leasing IPOs. The Panel A IPOs tend to be either diversified or tightly focused on one equipment type. LINC Capital focused on analytical instruments; Mitcham Industries specialized in seismic data equipment; MLC Holdings and Paramount

Table 6

Equipment Focus

	Company	Analytical Instruments	Autos	Cranes	Diversified	Essential Use	Health-care	Jet Aircraft	Office Automation	Seismic Data	Technology	Telecomm	
Panel A	Financing for Science International					x	x				x		
	First Sierra Financial				x								
	Granite Financial				x								
	LINC Capital	x											
	Marlin Business Services				x								
	Micro Financial				x								
	Mitcham Industries									x			
	MLC Holdings										x		
	Modern Medical Modalities						x						
	Paramount Financial										x		
	T & W Financial				x								
	Willis Lease Finance							x					
	Average percentages	8	-	-	42	8	17	8	-	8	25	-	
Panel B	Associates First Capital				x								
	CIT Group				x								
	Heller Financial				x								
	UniCapital Corp										x	x	
	Average percentages	-	-	-	75	-	-	-	-	-	25	25	
Panel C	Indigo Aviation AB*												
	Pride Automotive Group		x										
	Heartland Wisconsin Corp.			x									
	Average percentages	-	33	33	-	-	-	-	-	-	-	-	
Panel D	American Finance Group				x								
	Fidelity Leasing								x		x		
	Financial Pacific					x							
	ICON Holdings				x								
	BankVest				x								
	Average percentages	-	-	-	60	20	-	-	20	-	20	-	
Overall Percentages			5	5	5	58	11	11	5	5	5	26	5

* No information available.

Equipment niche strategies tended to be almost as prevalent as diversified strategies, depending on how one counts the equipment categories.

Financial both worked in technology equipment; Modern Medical Modalities concentrated in healthcare equipment; and Willis Lease Finance specialized in jet aircraft. Thus half of these leasing organizations specialized quite narrowly in one equipment niche. Except for Financing for Science International, the remaining Panel A companies leased a wide range of equipment.

Of the big four leasing IPOs in Panel B, three were highly diversified across equipment categories. UniCapital, which is the roll-up of many independent leasing companies, reported that it focused on technology and telecommunications equipment. In Panel C, Pride Automotive focused only on automobiles leases, and Heartland Wisconsin was created to finance only cranes. The focus of Indigo Aviation was not available.

The companies that withdrew their offerings (Panel D) leased a wide range of equipment in three cases, essential use equipment in one case, and office automation and technology equipment in one case. The categories being used here could contain a fair amount of overlap, because companies described their focus differently. For example, Financial Pacific indicated it specialized in essential use equipment. Essential use equipment for one lessee could well be different from essential use for another lessee. In addition, essential use could cover several different equipment classes for a particular lessee. The results summarized in Table 6 make it clear that equipment niche strategies tended to be almost as prevalent as diversified strategies, depending on how one counts the equipment categories.

The characteristics of lessees sought by leasing IPOs are shown in Table 7. Here, the categories are less focused on the industry a firm is in than other traits sought out by lessors. The number of equipment categories in Table 5 totaled 11, whereas the number of industry types reflected in Table 5 number four or five, depending on how one defines an industry.[20] All the categories identified in Table 4 might be placed into three groups: industry of the customer, credit of the customer, and "indirect" business, which could combine lessor/broker originated deals and vendor programs. In the latter group, the lessor is acquiring deals indirectly—not by originating directly with the end-user lessee.

Two lessors in Panel A focused on only one industry: air transportation or healthcare. Two lessors specialized in healthcare plus either technology-based customers (Financing for Science International) or information technology (LINC Capital). Four companies funded vendor transactions, and two purchased deals from lessors or brokers. Three companies are described as having a diversified customer base. The highest frequency of customer focus was vendor programs (33%) and diversified and healthcare (25% each).

The big four lessors (Panel B) all sold to a diversified customer base. The Panel C companies focused on either investment grade credits or vendor programs. Of the five issues withdrawn, three had a diversified customer base, with the other two describing their focus in terms of credit quality. American Finance Group sought investment grade credits, whereas Financial Pacific focused on higher risk credits. In terms of overall percentages, just over half (53%) indicated a diversified customer base, followed by vendor programs (26%) and healthcare and investment grade credits (16% each).

Transaction Focus

In this section, we captured information regarding deal size and term. This is presented in Table 8 (page 14). Data regarding these issues was more sparse than for other characteristics. In terms of small-ticket, middle-market and large-ticket, the small-ticket market was by far the most heavily populated. A small-ticket focus was followed by 50% of the Panel A lessors, 100% of Panel B companies, 67% of Panel C firms, and 80% of Panel D lessors.

Overall, small-ticket leasing was the focus of 67% of the firms. This does not mean that middle-market and large-ticket were targeted by 33 percent, however, given that six companies targeted more than one market. One-third of the companies targeted the middle market, and another third targeted large-ticket transactions.

Table 7

Customer Focus

	Company	Air Transportation	Diversified	Healthcare	Higher Risk	Information Technology	Investment Grade/ Prime Credit	Lessors/ Brokers	Oil & Gas	Technology Based	Vendors
Panel A	Financing for Science International			x						x	
	First Sierra Financial							x			x
	Granite Financial							x			x
	LINC Capital			x		x					
	Marlin Business Services		x								
	Micro Financial				x						
	Mitcham Industries								x		x
	MLC Holdings		x								
	Modern Medical Modalities			x							
	Paramount Financial		x								
	T & W Financial						x				x
	Willis Lease Finance	x									
	Average percentages	8	25	25	8	8	8	17	8	8	33
Panel B	Associates First Capital		x								
	CIT Group		x								
	Heller Financial		x								
	UniCapital Corp		x								
	Average percentages	0	100	0	0	0	0	0	0	0	0
Panel C	Indigo Aviation AB*										
	Pride Automotive Group						x				
	Heartland Wisconsin Corp.										x
	Average percentages	0	0	0	0	0	33	0	0	0	33
Panel D	American Finance Group						x				
	Fidelity Leasing		x								
	Financial Pacific				x						
	ICON Holdings		x								
	BankVest		x								
	Average percentages	0	60	0	20	0	20	0	0	0	0
Overall Percentages		5	53	16	11	5	16	11	5	5	26

* No information available.

Average deal size was reported exclusively by small-ticket lessors—seven companies in all.

Willis Lease Finance is the only company that focuses on large-ticket transactions exclusively. That focus is a necessity, however, as it specializes in the lease of jet engines.

Average deal size was reported exclusively by small-ticket lessors—seven companies in all. Three middle-market lessors reported their smallest and largest deals sought (First Sierra, LINC Capital and Modern Medical Modalities), whereas six small-ticket lessors reported their largest deal cap or deal range. Lease term information is quite sparse, although we see that Willis Lease Finance has a much longer lease term maximum than other lessors. This would appear logical, because, again, Willis specializes in aircraft equipment. All other lease terms disclosed are no longer than 84 months, or seven years. Of all IPOs that went public (that is, were not withdrawn), the longest term (other than Willis) is 5 years (60 months).

SUMMARY AND CONCLUSIONS

The purpose of this study has been to analyze leasing company IPOs that came to market from 1994 forward. Leasing IPOs appear similar to

Table 8

Transaction Focus

	Company	Small Ticket	Middle Market	Large Ticket	Average Deal (000s)	Smallest Deals (000s)	Largest Deals (000s)	Term (Months)
Panel A	Financing for Science International		x			100	2,000	53
	First Sierra Financial	x			17		< 250	56
	Granite Financial	x			30	< 100		
	LINC Capital		x			250	2,000	
	Marlin Business Services	x			8		150	
	Micro Financial	x			1	0.9	3	45
	Mitcham Industries		x					< 12
	MLC Holdings	x	x	x		51	21,000	
	Modern Medical Modalities		x			300	2,000	60
	Paramount Financial*							
	T & W Financial	x					< 250	
	Willis Lease Finance			x				36 -120
	Average percentages	50	42	17				
Panel B	Associates First Capital	x		x				
	CIT Group	x	x	x				
	Heller Financial	x	x	x				
	UniCapital Corp	x		x				
		100	50	100				
Panel C	Indigo Aviation AB*							
	Pride Automotive Group	x						
	Heartland Wisconsin Corp.	x						
		67						
Panel D	American Finance Group		x	x				< 84
	Fidelity Leasing	x			14	5	250	46
	Financial Pacific	x			19			50
	ICON Holdings	x		x				
	BankVest	x			22	5	250	51
	Average percent	80	20	40				

* No information available.

IPOs generally in many respects. The key findings of this study will be summarized in bullet form.

Timing

- Nineteen leasing companies went public from 1994 through 2004, compared to 3,022 IPOs in total during the same time period.
- The timing of leasing IPOs closely mirrored the timing of IPOs generally.

Offer Size

- Four very large (over $500 million) offerings were made, which were essentially spinoffs by parent companies.
- The 15 remaining IPOs averaged $22 million in offering size.
- The median offering size of leasing IPOs was similar to the median offering size of IPOs generally.

Underwriter Reputation

- The reputation or prestige of leasing IPO underwriters was comparable to IPOs generally.
- Large IPOs had more prestigious underwriters than smaller IPOs.

Age of IPO Firms

- The age of leasing IPOs was similar to the age of IPOs generally-in the 7- to 8-year range.
- The age of the largest IPOs was considerably higher than the average IPO firm age.

Withdrawn IPOs

- Five leasing IPOs were withdrawn. Three were sold to other companies, one had a dispute with its underwriter and decided to fund through partnerships, and one withdrew for suspected asset quality reasons.

Financial Characteristics

- Of the 19 successful leasing IPOs, 17 (89%) were profitable, and the average return on equity was well above the typical leasing company ROE, as reported in the Equipment Leasing Association *Survey of Industry Activity*.
- The average profitability (measured by positive or negative net income) of leasing company IPOs is much higher than for all other IPOs, even when tech-Internet IPOs are not included in the comparison.
- There has been no deterioration in the profitability of leasing company IPOs in terms of earnings over the past 10 years. However, all other IPOs (whether tech-Internet IPOs are included or excluded) have significantly declined in earnings over the same period.
- The average debt-equity ratio for the big four leasing IPOs was 6.65—close to the SIA average.
- The average debt-equity ratio for the remaining successful IPOs was 13.8—roughly double the SIA average ratio.

IPO Motives

- The major motivation for the big four to go public was to allow their respective parent companies to cash out.
- The major motivation for the remaining leasing IPOs was to pay down debt—that is, restructure their financing. This is consistent with their average debt-equity ratio being twice the industry average.

Equipment Focus

- Generally, the equipment leased by the big four IPOs was diversified.
- For the remaining 15 leasing IPOs, about half focused on a fairly narrow equipment niche, whereas the other half were diversified.

Customer Focus

- The big four IPOs had a diversified customer focus.
- The remaining 15 IPOs focused on lessees in specific industries; lessees with certain credit characteristics; or "indirect" business through lessors, brokers, and vendors.

There has been no deterioration in the profitability of leasing company IPOs in terms of earnings over the past 10 years.

Because this study does not have the size of each IPO available, we relied on this study's results to provide a general indication of leasing offering sizes in relation to all IPOs.

Transaction Focus

- The big four IPOs had a varied transaction focus, with the biggest concentrations in both small-ticket and large-ticket deals.
- The remaining 15 IPOs were most heavily focused on small-ticket deals, followed by middle-market transactions.

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APPENDIX ON ISSUE SIZE

The "same or smaller" rankings of leasing company offerings by size relied on data reported in a published study written by Inmoo Lee, Scott Lochhead and Jay Ritter, "The Costs of Raising Capital," *Journal of Financial Research*, Spring 1996, pp. 59-74. They classified all IPOs into one of nine "issue proceeds" sizes and indicated the number of issues in each size class. Because this study does not have the size of each IPO available, we relied on this study's results to provide a general indication of leasing offering sizes in relation to all IPOs. Because this is the level of granularity available to us, we coded both Modern Medical Modalities, with an offering of $2 million, and Mitcham Industries, with an offering of $9 million, as being in the 19th percentile of "same or smaller" issues. Obviously, if we had a listing of all IPOs by size, we could have been more precise, and would have recorded Mitcham Industries as being in a higher size percentile than Modern Medical Modalities. Thus the size statements in this article are somewhat general indications rather than precise percentile statements.

Issue Proceeds ($ millions)	Number of Issues	Percent of All Issues	Cumulative Percent of All Issues
$2 - $9.99	337	19	19
10 – 19.99	389	22	41
20 – 39.99	533	30	71
40 – 59.99	215	12	83
60 – 79.99	79	4	87
80 – 99.99	51	3	90
100 – 199.99	106	6	96
200 – 499.99	47	3	99
500 - up	10	1	100
Totals	1,767	100	—

Source: Data for the "All IPOs" category is adapted from Jay Ritter, "Some Factoids About the 2004 IPO Market" (working paper, University of Florida, Gainesville, February 2005).

Endnotes

1. The term "leasing company" is being used somewhat loosely here. Some of the firms included in this study may not be considered as primarily leasing companies. However, the companies included that are more general commercial financing organizations did, in fact, have a significant presence in the leasing industry when they went public.

2. This is not designed as a "where are they now" article that follows a group of companies over the years. It is focused on who goes public, how, and why. More than one reviewer of this article was interested in how leasing IPOs have performed and how they compare to other IPOs, and why. The author shares that interest, but would prefer to leave that for a future endeavor.

3. "Some Factoids About the 2004 IPO Market," working paper by Jay Ritter, University of Florida, Gainesville, February 2005.

4. The information reported in this study came from two primary sources: IPOData.com, and various filings with the Securities and Exchange Commission. References are also made—and information extracted from—various studies by Professor Jay Ritter, a leading IPO expert. In some cases, information was obtained from an investment banker or a principal of one of the firms being studied.

5. The basis for this estimated IPO size compares each leasing company IPO to nine IPO size categories reported in "The Costs of Raising Capital," *Journal of Financial Research*, Spring 1996, by Inmoo Lee, Scott Lochhead and Jay Ritter, Table 1. The authors report the total number of IPOs brought to market during the 1990-1994 time period by offering size. The smallest category includes IPOs from $2 million to $9.99 million and is coded as a 1 in Table 1. Because the exact size of each IPO in toto is not available to the author, these classes are shown to provide an approximate—not definitive—estimate of the relative size of leasing company IPOs.

6. This is a key finding of a study by James Johnson and Bob Mill ("Investment Banker Prestige and the Underpricing of Initial Public Offerings," *Financial Management*, Summer 1988. A more elaborate index of underwriter reputation has been devised by Richard Carter and Steven Manaster, whose methodology was adjusted and subsequent rankings by Tim Lougrhran and Jay Ritter ("Why Has IPO Underpricing Changed Over Time?" *Financial Management*, Autumn 2004). The reputation rankings range from 1.1 for the lowest level of reputation to 9.1 for the highest level of underwriter reputation.

7. Of course, a vibrant leasing company IPO market is not solely determined by the level of interest rates, but it is likely a contributing factor.

8. A development stage business going public is required to state that it does not have a product or service available for sale as of the reporting date. These are truly speculative issues, because the expected product or service may not ever see the light of day.

9. "Some Factoids."

10. "The Costs of Raising Capital."

11. The nine categories were, in millions of dollars, 2 to 10, 10 to 20, 20 to 40, 40 to 60, 60 to 80, 80 to 100, 100 to 200, 200 to 500, and over 500. Ibid.

12. The only security traded in the United States issued by Indigo Aviation AB consisted of American depository receipts, or ADRs.

13. Except for a June 1999 filing, in which it gives the SEC notice of its inability to timely file, that is the last filing on record for Heartland Wisconsin.

14. Interviews with an ICON executive, August 2005.

15. Interviews with investment bankers, September 2005.

16. "Pre-IPO Financial Performance and Aftermarket Survival," by Stavros Peristiani and Gijoon Hong, *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, February 2004.

17. These percentages do not include warrants and other share allotments made available to the underwriters.

18. As indicated previously, this is not entirely accurate in the case of UniCapital, but close, because the companies that comprised UniCapital were cashed out from the IPO proceeds.

19. The 12 founding companies, in the order mentioned in UniCapital's S-1 are: Jacom Computer Services; Varilease Corp.; Cauff, Lippman Aviation; Municipal Capital Markets Group; NSJ Group; American Capital Resources; Matrix Funding Corp.; Walden Asset Group; Boulder Capital Group; Keystone Inc.; Merrimac Financial Associates; and Portfolio Financial Services Co. Within three months of going public, UniCapital indicates in its first 10-K405 that it acquired Jumbo Jet, U.S. Turbine Engine, HLC Financial, BSB Leasing, and Saddleback Financial.

20. For example, air transportation, healthcare, information technology, and oil and gas might be considered "industries," whereas "technology based" might describe customers in a variety of industries.

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