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Pets at Home: shares rehoused

Private equity firm KKR sells half its stake

You can buy a lot of dog food for £288m. On Tuesday, private equity firm KKR sold 108m shares (half its stake) in Pets At Home, the retailer it listed in March 2014. This is the latest in a series of UK disposals by private equity groups.

Initial public offerings backed by private equity houses were a big feature of the UK stock market in 2014. They accounted for 65 per cent of all IPO money raised last year, according to PwC.

Generally, IPOs have performed well this year: three quarters of them have beaten the index. This may be due to sensibly structured offers, but it may also be attributable to a device that purports to protect the interests of incoming investors: lock-ups.

Post-IPO restrictions on the sale of shares are not compulsory in the UK, as they are in some markets, but they are a common feature of share offers backed by private equity firms. Typically the company and selling shareholders are barred from further share sales for 120 days, unless the bank underwriting the IPO specifically grants permission for such sales.

Most of last year's lock-up periods have expired and further shares have been sold, either by the companies themselves (in the cases of AA and Just Eat) or by major shareholders. Such disposals have not affected share prices much. Take SSP, the takeaway food group that floated last July at 210p. Shares are now 293p even though private equity firm EQT has since sold its remaining stake for £496m — more than the amount raised at IPO.

That is to be expected. Investors know a private equity firm is always going to want a full exit eventually. Perhaps greater significance should be attached to directors' share sales, since their commitment to the company should be longer term. A study of 580 IPOs over 16 years by professors Wasim Ahmad and Ranko Jelic found that locking in managers for longer periods did improve long-term survival of newly listed companies.

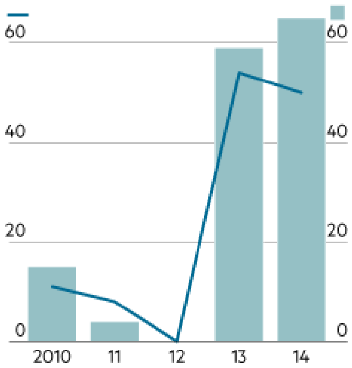
Most of last year's IPOs lock in directors for a year, not just four months. As those periods end, boardroom sales could be a sign that something is going to the dogs.

Email the Lex team at lex@ft.com

Locking in gains

2014 was a big year for flotations backed by private equity. Now that lock-up periods have expired, more shares are being sold into the secondary market

UK private equity IPOs as a proportion of total UK IPOs



Largest IPOs and secondary market sales

Company	Amount raised (£m)	Pricing date, 2014	Price gain since IPO (%)	Secondary market sales (£m)
AA	1,385	Jun 23	64	0*
B&M	1,080	Jun 11	25	384
Saga	550	May 23	12	361
Pets at Home	490	Mar 12	15	288
SSP**	482	Jul 29	39	496
Poundland	375	Mar 12	0	142
Just Eat	360	Apr 3	63	260

* Vendor sold all shares at IPO
** Representing entire post-IPO stake

FT graphic Sources: PwC; Dealogic; companies

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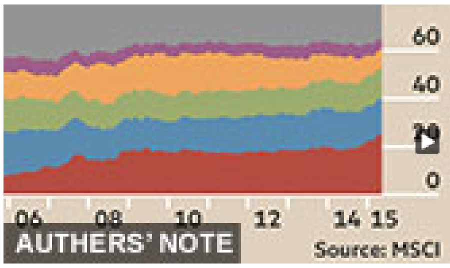

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