funds, for their part, are coming in bigger returns. This year has proven par-

carry out our strategic Asian expansion," wrote Paul Tudor Jones, chairman and chief executive in

On the whole, Asian securities markets are less

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...h Firms Seek Stability in Arms of Institutional Holders

By PUI-WING TAM

HEARD ON THE STREET

MANY TECH COMPANIES don't share **Google** Inc.'s professed love of the little guy.

...watching its stock swing wildly and per-...kly, hand-held computer maker **palmOne** Inc. got serious last year about trying to stabilize its share price. Its plan: To put more of its stock in the hands of institutional ...instead of retail investors.

"...e looking for shareholders that aren't ...g to flip the stock," says Todd Bradley, ...cutive of the Milpitas, Calif., company. ...ted to reduce the stock's volatility."

...company's investor-relations team tar-...tain institutional investors and worked to ...Wall Street analysts to cover the stock. The moves followed palmOne's spinoff of software maker **PalmSource** Inc. last October and its earlier reverse stock split, designed to get the price of what was then called Palm Inc. above $5 a share to make it more attractive to institutional investors.

Today, 57.7% of palmOne's stock is owned by institutions such as mutual funds and pension funds, up from 42.9% in December, according to FactSet Research Inc. The move has helped boost palmOne's stock: Since the beginning of the year, the shares have more than tripled. They rose 76 cents yesterday to close at $39.02.

Dozens of other tech concerns also have shifted from having largely retail owners of their stock to more institutional holders over the past six months, according to data from FactSet. Some companies have increased institutional ownership by more than 60% within this period.

Among the notable moves: Software maker **Tibco Software** Inc. boosted its institutional owner-

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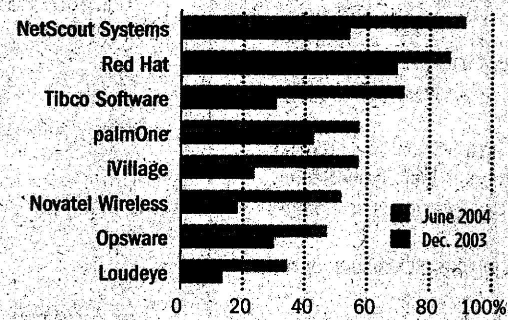
Share Shift

Percentage of selected tech companies' stock held by big U.S. institutional investors



NOTE: Doesn't include overseas investors or institutions with assets of less than $100 million

Source: FactSet Research Systems

August 25, 2004

Tech Companies Court Institutional Investors

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ship to 71.9% at the end of June from 30.9% at the end of 2003. Network-software firm **NetScout Systems** Inc. increased institutional ownership to 91.6% from 54.4% in the same period. And wireless-products maker **Novatel Wireless** Inc.'s institutional ownership jumped to 52.1% from 18.1%.

The pursuit of more institutional holders contrasts with the strategy of Google, the Internet search-engine firm that went public last week. The method Google used to bring itself public appeared aimed at getting its stock into the hands of the retail investors that many tech companies are trying to get away from. Google held what is called a Dutch auction for its initial public offering, where the company accepts bids for its shares from the public. On Google's first day of trading, the average trade was 315 shares, suggesting that retail buyers continued to participate actively and institutions that usually buy larger blocks mainly stayed on the sidelines.

HEARD ON THE STREET

Many corporate-finance experts, however, recommend that tech companies aim for 80% of their stock to be held by institutions and only 20% by individuals. Since institutional investors are typically longer-term owners of stock than individuals, a stock with more institutional holders is perceived as more stable.

What's more, it is easier for companies to raise money through a shelf registration—where a public company can sell some of its registered securities from time to time over a certain period—during tough times if they have more institutional holders to call on. Higher institutional ownership also can lead to increased Wall Street coverage of a company, which raises the profile of a stock and helps keep a company's shares liquid.

"Smart companies think of institutional shareholders like partners, who stick with them in bad times and can help them raise large pools of capital in good times," says David Liu, senior vice president of investment bank Broadview International, a division of Jefferies Group.

Attracting institutional investors is tricky, however. A company first has to perform well enough to be considered as a potential investment by institutions. Then it can shift its shareholder base toward institutions through several techniques, says Mr. Liu. Through an offer to buy up small lots of its shares from individual investors, a company can consolidate its stock in the hands of larger holders. A company could also go through a shelf registration or follow-on stock offering—where a company offers additional shares or sells the shares of a large shareholder—which are marketed mainly to big institutions.

This was largely the course followed by **iVillage** Inc., the female-oriented Internet site based in New York. Douglas McCormick, iVillage's CEO, says the company had a follow-on offering earlier this year, selling 12 million shares and raising $65 million. Over 75% of the shares of the secondary offering were sold to institutions, he says.

Among iVillage's new institutional shareholders are long-term buy-and-hold investors such as **Fidelity Investments**, according to Securities and Exchange Commission filings. Institutional investors own 57.5% of the company's shares versus 23.7% at the end of 2003, notes FactSet. Since the beginning of the year, iVillage's stock has risen 59%, closing yesterday at $5.70.

"If quality institutional investors are behind you, that can only be a good thing," says Mr. McCormick.

Tibco Software, Palo Alto, Calif., also began chasing more institutional investors last year, says Michael Magaro, vice president of investor relations. He started to call on more Wall Street analysts with the aim of getting them to cover the company and to raise the profile of the stock. Tibco executives also began hitting the road to talk with institutions once a month, compared with once every three months a year ago. In late January, a large shareholder of Tibco also sold 60 million of the company's common shares in a secondary offering. More than 80% of those shares were sold to institutions, says Mr. Magaro.

The results: four more Wall Street analysts now cover the company and institutions now own 71.9% of its stock, up from 30.9% at the end of 2003, according to FactSet. Mr. Magaro says he hopes to increase the percentage of institutional ownership to 80% to 85%. "The more institutional money there is, the more it should drive shareholder value," he says. Since the beginning of the year, Tibco's stock is down 6.2%, closing yesterday at $6.35.

In palmOne's case, the company had improved its financials over the past year and much of its strategy to attract bigger investors came down to getting that message out. In meetings with institutions, palmOne executives also focused on the company's goal of becoming a top player in the emerging smartphone business. Its purchase last year of Handspring Inc., a leader in smartphones, helped bolster the message.

Among recent investors in palmOne are mutual funds managed by Fidelity, **Fred Alger Management** Inc. and **Eaton Vance** Corp. Arieh Coll, a portfolio manager at Eaton Vance, purchased more than one million shares of palmOne earlier this year. He visited palmOne's management and says he liked what he heard about the company's ambitions to build a family of smartphone products.

He says there is more coverage of the stock now. "There's more supporters of the company helping to educate the public," says Mr. Coll, who typically buys and holds a stock for several years.

But palmOne's effort to attract long-term institutional investors hasn't always panned out. Earlier this year, Dave Picton, a portfolio manager at **CI Mutual Funds** Inc. in Toronto, bought about 134,000 shares of palmOne, according to SEC filings. But Mr. Picton says he doesn't typically hang onto an investment for a long time. Asked about his palmOne holdings last week, he said, "We've already sold out of the stock."