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THE WALL STREET JOURNAL EUROPE

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THE FACEBOOK IPO

After Facebook, Kayak IPO Stalls

Kayak Software Corp. slowed its march to the stock market in one of the clearest examples yet of the fallout from **Facebook Inc.**'s tumultuous initial public offering.

By **Anupreeta Das,**
Gina Chon
and **Brett Philbin**

Kayak, which runs a travel-listings website, didn't launch its "roadshow" to pitch the stock to large investors, an event that had been expected to begin around Memorial Day, people familiar with the matter said. **Morgan Stanley**, the lead bank on the Facebook deal, also is leading the Kayak deal.

With Facebook proving a disappointment for many investors, timing for the Kayak deal is uncertain now, the people said, adding that the company is assessing investors' current appetite for Internet stock deals.

"We're waiting for market conditions to meet our requirements" for an IPO, said Kayak spokeswoman **Jessica Casano-Antonellis** on Wednesday. She said the IPO hasn't been delayed because the company never set a time frame for its offering.

As the first significant Internet IPO expected after Facebook's debut nearly two weeks ago, Kayak was shaping up as a big test both of the IPO market and of **Morgan Stanley**, which has endured criticism that it overestimated demand for Facebook shares.

On Thursday, the shares were off 0.6% at \$28.03, after falling 2.25% Wednesday, leaving them down 26% from their IPO price of \$38.

The Facebook developments led **Morgan Stanley's** chief executive, **James Gorman**, to internally defend the firm's role the IPO. During a weekly strategy meeting Tuesday that was webcast to employees, he called the steep decline in Facebook's stock "disappointing." He also said malfunctions on the Nas-

daq Stock Market in the opening hours of trading in Facebook caused "unprecedented confusion and disarray."

Mr. Gorman told employees to "be proud of the job your colleagues did and don't judge us based upon what happened over a couple of days."

In a sign of how important the Kayak deal is to **Morgan Stanley**, the firm's star technology banker, **Michael Grimes**, recently brought up the Facebook IPO in conversations with Kayak board members and said he stood by its execution, people familiar with the matter said. He was the main consultant to Facebook on its IPO. He also pledged to devote his full energies to Kayak in the coming weeks, the people added.

Mr. Grimes was among the individuals Mr. Gorman praised in the Tuesday meeting.

In the discussion, Mr. Gorman recounted a phone call he said he received from Facebook's chief operating officer, **Sheryl Sandberg**, this past Friday evening. Mr. Gorman said Ms. Sandberg praised the company and offered **Morgan Stanley** a professional reference for its work on the deal. Facebook didn't immediately respond to a request for comment.

Kayak is expected to take the Facebook experience into account when setting its own share price, people familiar with the matter said, adding that it will likely lean toward a conservative offer price. Ms. Casano-Antonellis said "our valuation expectations haven't changed."

She added that Kayak is happy with the advice from **Morgan Stanley** and still plans to list on **Nasdaq**.

Unlike websites such as **Expedia Inc.** and **Priceline.com Inc.**, Kayak for the most part doesn't itself sell airline tickets or hotel bookings. Instead, Kayak lets Web surfers search for travel options, and the company makes money when it directs people to book travel on websites of airlines,



CEO **James Gorman**

hotels or other travel services. Kayak also sells online ads.

Even before the Facebook IPO, Kayak has faced a rocky road to its IPO. Competition for online travel services is increasing, including offerings from tech giants such as **Google Inc.** that are making a bigger plunge into offering flight-and-vacation services.

Against the stiff competition, Kayak continues to grow. In the first three months of the year, consumers did 310 million travel searches on Kayak, according to its IPO documents, or 45% more than the same stretch in 2011. Kayak's revenue rose 32% last year to \$224.5 million—less than one-fifteenth the size of publicly traded peers **Expedia** and **Priceline**. Kayak is profitable.

Kayak has had IPO documents on file for 18 months, four times longer than the average U.S. stock-market debutante, according to research firm **Dealogic**.

Scott Sweet, senior managing



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partner at **IPO Boutique LLC**, a Florida-based IPO advisory and research firm, said many of his retail investor clients would have likely abstained from buying into Kayak if it launched now after they feel burned in Facebook. "A lot of people are saying they will wait to see the next IPO work before they step in again," Mr. Sweet said. "So there is going to be a freeze for a while."

Separately, London-based jeweler **Graff Diamonds Corp.** said Thurs-

day it has decided to postpone its \$1 billion initial public offering in Hong Kong owing to adverse market conditions that hurt demand. Graff's deal is the largest IPO to be withdrawn in Asia so far this year, amid a string of pulled deals in recent days.

—*Shira Ovide
and Andrew Ackerman
contributed to this article.*