

Pandora sings happy tune: IPO fetches \$16 a share

June 15 2011, By MICHAEL LIEDTKE , AP Technology Writer

(AP) -- Pandora Media Inc. sold its initial public offering of stock at \$16 per share late Tuesday, fetching twice as much as the popular but unprofitable Internet radio service expected less than two weeks ago.

The IPO's completion means [Pandora](#) will make its [stock market](#) debut Wednesday morning with a market value of \$2.6 billion. That's a lofty number for a company that has lost \$92 million since it started as a [music recommendation](#) site called TheSavageBeast.com 11 years ago.

Since then, it has morphed into a service that streams music over [high-speed Internet connections](#) to computers and a widening array of other devices. The tunes are tailored to suit the individual tastes of Pandora's 94 million registered users.

The large audience and the amount of time that people spend listening to Pandora is the main reason money managers and [institutional investors](#) drove up the value of the company's IPO.

The next measure of Pandora's investment appeal comes Wednesday when the general public gets its first chance to buy a stake in the company. The shares will trade under the "P" ticker symbol on the [New York Stock Exchange](#).

The buyers of the IPO appear to be betting the recent fervor for the stock of rapidly growing Internet services will quickly drive up Pandora's trading price. That's what happened last month after the IPO of LinkedIn

Corp. the company behind the world's largest site for business networking. LinkedIn's stock more than doubled on its first day of trading to mint it with a \$9 billion market value.

Pandora shares are entering a stock market that has become much shakier amid signs that the economy's recovery from the Great Recession is faltering. The tech-driven [Nasdaq composite index](#) has fallen 5 percent since LinkedIn priced its IPO May 18.

Anyone thinking about buying Pandora's shares Wednesday also may want to consider this: LinkedIn shares closed Tuesday at \$76.34, a 19 percent drop from where they finished on the first day of trading.

From perspective of Pandora and the insiders who sold some of their stock, this IPO already looks like a smash hit. Before expenses, the offering raised about \$96 million for the company, which is based in Oakland. Existing stockholders collected a combined \$139 million by selling a total of 8.7 million shares.

The IPO price represents a more than five-fold increase from what Pandora's own board thought the company was worth just six months ago. Pandora's board appraised the stock's value at \$3.14 per share in December, according to documents filed with the Securities and Exchange Commission. Earlier this month, Pandora projected its IPO would sell for \$7 to \$9 per share before raising the range to \$10 to \$12 per share at the end of last week.

The main thing Pandora has going for it is people's attention. In Pandora's last fiscal year ending in January, its audience spent a collective 3.8 billion hours listening to streamed music over the Internet. That total could more than double this year if its audience rate of engagement grows at the same pace it did in the three months ending in April.

As people spend more time listening to Pandora, the service becomes a more compelling marketing vehicle. Like most Internet services, Pandora makes most of its money from advertising. It also sells a music subscription service to listeners who want to skip the ads.

Pandora still hasn't been able to bring in enough money to cover its costs, which primarily consist of the royalties that it pays to play music. As more people listen to music, the royalty rates also rise.

Before paying dividends on preferred stock, the company lost \$1.8 million on revenue of \$138 million in its last fiscal year. Pandora's content acquisition costs ate up half the revenue. During the first quarter of the current fiscal year, Pandora's revenue more than doubled from last year to \$51 million but so did its losses, which totaled \$6.8 million for the February-April period before accounting for the preferred stock dividends.

The IPOs from [LinkedIn](#) and Pandora are being viewed as warm-up acts for the stock market debuts of several bigger Internet stars.

The upcoming attractions include Internet coupon seller Groupon Inc., which filed its IPO papers earlier this month, and Web game maker Zynga, which is expected to file its plans to go public soon. Facebook, the owner of the world's largest site for socializing, has indicated it will file its IPO documents before May 2012.

Goldman Sachs Group put together an investment that valued Facebook at \$50 billion at the beginning of this year.

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