Slack Technologies rises in Wall Street debut

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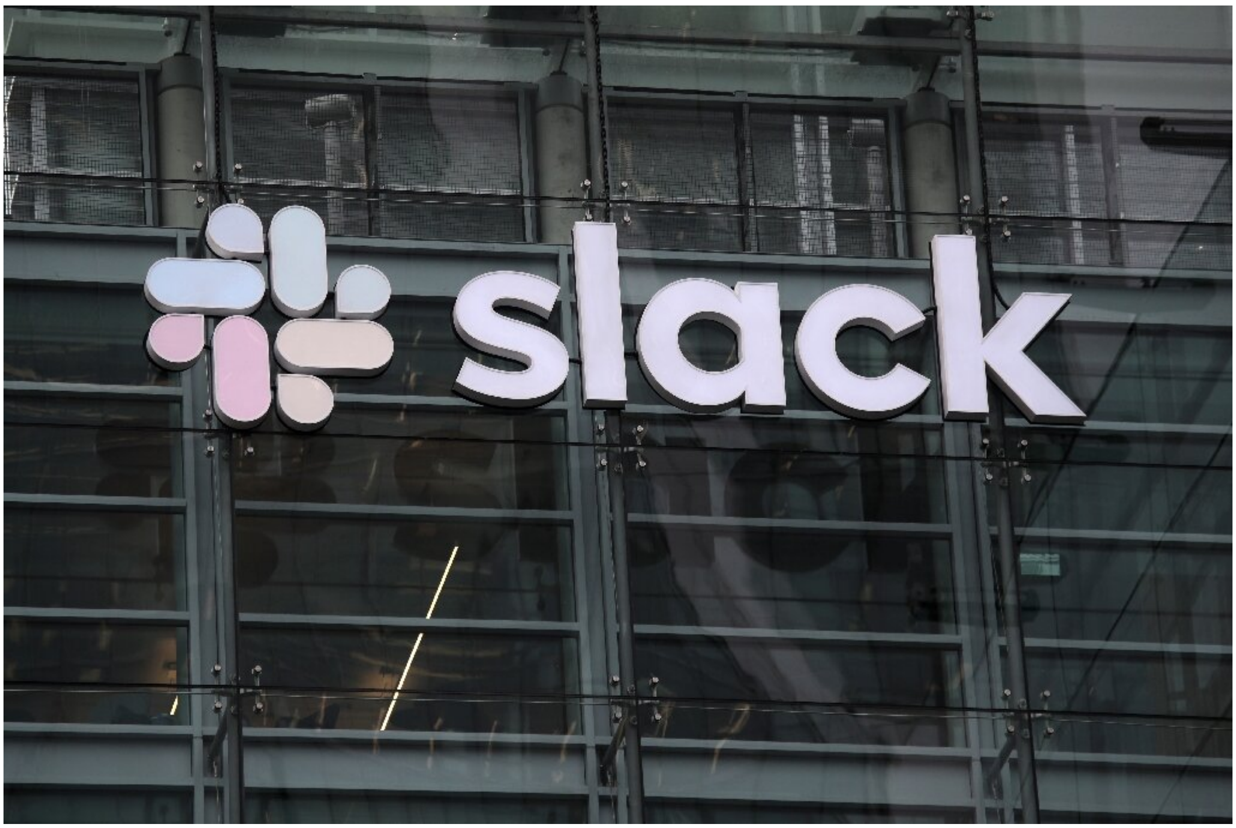

Shares of Slack jumped after the company made its debut on the New York Stock Exchange through a direct listing

Software company Slack Technologies climbed on the New York Stock Exchange Thursday after debuting in a direct listing, in the latest sign of Wall Street's appetite for new technology entrants.

Shares of the company, whose arrival was marked with a giant purple banner outside the NYSE, initially surged as high as $42 before pulling back somewhat and finishing at $38.62. The exchange had set a reference price of $26.

That left the company, which trades under the ticker of "WORK," with a market capitalization of around $20 billion.

"We just see an enormous opportunity," chief executive and co-founder Stewart Butterfield told CNBC Thursday shortly before ringing the opening bell of the NYSE.

Slack—the happy byproduct of a failed video-game initiative by Butterfield and colleagues—is not raising capital with the issuance. But Butterfield said that entering public markets positions the company to raise funds for growth programs down the road.

Known for its workplace messaging and information sharing program, Slack joins the growing class of 2019 as far as prominent companies going public, a group that already includes Uber, Levi's and Beyond Meat.

Yet Slack's decision to forgo an initial public offering distinguishes it from the crowd and could be a precursor of more such issues, according to some experts.

Emerging trend?

The direct listing approach, which was also employed by Spotify last year, cuts down on fees to investment bankers in IPOs. Although existing shares are sold, a direct listing does not issue new shares, averting share dilution but also forgoing the new funds raised in an IPO.

The process can also be riskier in terms of share price volatility compared with an IPO, where underwriters line up investors in advance. In a direct listing, shares are exposed more directly to the open market.

The process could be especially fraught for companies less known than Spotify or Slack.

"I think you'll see this as a trend going forward," Robert Greifeld, the former chair of Nasdaq and now at Virtu Financial, told CNBC.

Greifeld said a direct listing leads to a "more democratic" price discovery process made by individual investors, rather than through a traditional roadshow with institutional investors.

The effect is to separate the price discovery function inherent in going public from the fundraising aspect that is frequently a driver for companies, Greifeld said.

Slack has described its mission as replacing email in a company, allowing work teams to share information through work projects that can be organized in channels that consist of files, photos and employee chats.

Butterfield, who cited Latin America and Southeast Asia as strong markets for potential long-term growth, told CNBC that Slack was born from software devised to help him build a video game with colleagues at different locations.

While the video game did not succeed, "at one point we realized we will never work without a system like this again, the rest of the world could probably use this," he said.

Another bubble?

Several prominent companies that have gone public so far this year have risen since their entry, including jeans company Levi's, Tradeweb Markets, which builds electronic marketplaces, Zoom Video Communications, and mobile application and software system Pinterest.

But the list also includes some disappointments, especially Uber and Lyft, both of which currently trade below their IPO price.

Analysts also question whether the valuation of some firms has become excessive, as in the case of food company Beyond Meat, which currently trades at more than six times its entering price.

Slack "has some attractive attributes, including high double digit revenue growth and a long runway for further growth due to the enormous addressable market," said a note from Briefing.com that warned the company could be vulnerable if broader macro conditions decline.

"If the market sours and becomes more volatile—which is certainly possible given the headline risks around Iran and China—these high-flying stocks would be especially prone to a sharp profit-taking pull-back," Briefing said.

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