

# Welcome LGIH to public home building's big dance-UPDATE 2

The 2013 IPO parade finishes with up with mojo rising, and all expectations that fundamentals are in tow despite all the question marks

By: John McManus  
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**LGI Homes (LGIH)**

**IPO News**

- 15 US IPOs planned for the week of Nov 4-11/4/13
- US IPO Recap: 2013 passes 2012 in proceeds raised 11/4/13
- Entry-level homebuilder LGI Homes sets terms for \$126 million IPO 10/28/13

**Business**

<b>Business</b>	Entry-level homebuilder in the Texas, Arizona, Florida and Georgia markets
<b>Industry</b>	Building-Resident/Commrcd
<b>Employees</b>	200
<b>Founded</b>	2002

**LGIH Daily**

Chart

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**IPO Profile**

<b>Expected Date</b>	Week of 11/4/13
<b>IPO File Date</b>	08/28/13
<b>Deal Size</b>	\$126.0 mm
<b>Price Range</b>	\$13 - \$15
<b>Shares Offered</b>	9.0 mm
FY12 and LTM financials are pro forma.	
<b>Lead Manager(s)</b>	Deutsche Bank JMP Securities J.P. Morgan
All Underwriters	

**Corporate Data**

<b>Company Address</b>	1450 Lake Robbins Drive, Suite 430 The Woodlands, TX
<b>Phone Number</b>	(281) 362-8998
<b>Web Address</b>	<a href="http://www.lgihomes.com">www.lgihomes.com</a>

At 9:30 a.m. today, LGI Homes' team, led by ceo Eric Lipar, applauded their way through opening bell ceremonies at NASDAQ's Market Site in Times Square, taking the **Houston, Tx.**-based builder public, and opening a new chapter in its meteoric history. Ironically, 50 or so blocks to the south in **Manhattan's** financial district, Twitter execs are ringing the bell at the New York Stock Exchange, at an opening price of \$26 per share, or \$14.6 billion. LGI expected to price at a range of \$13 to \$15 per share, for a total of \$114 million or thereabouts. UPDATE: LGI shares priced at \$11, below the range for a total raise of \$99 million.



This just in from Renaissance Capital's IPO Center news:

**LGI Homes, an entry-level homebuilder in the Texas, Arizona, Florida and Georgia markets, raised \$99 million by offering 9.0 million shares at \$11, below the range of \$13 to \$15. LGI Homes plans to list on the NASDAQ under the symbol LGIH. LGI Homes initially filed confidentially on 7/10/2013. Deutsche Bank, JMP Securities and J.P. Morgan acted as lead managers on the deal.**

So, no question who'll be getting the lion's share of hype and attention as the financial markets get down to business. Let's look at the implications, first of the pricing, and then step back and see where this leaves us.

For starters, [here](#) and [here](#) are a couple of backgrounders we've done on LGI's run-up to this moment.

Initial thoughts in no order of priority:

The mere fact that Lipar, his cfo Charles Merdian and their brain trust pressed relentlessly through thick clouds of investor uncertainty, policy risk, consumer sentiment turbulence, and competitive ferocity says something important about this moment for LGIH. They know exactly who they are as a company, and how they work, and what they do and can do, all very important criteria for investors.

Otherwise, here are some probable factors in why the company's shares priced below range:

\* MODEL: the LGI model is different; its domination-by-sales tactics mode of generating results is afield of most public home builder narratives, so questions as to how iterative it can be in geographical arenas other than Texas and now, Arizona, Florida, Atlanta, inevitably come up.

\* POSITION: LGI's principal focus is the entry-level, first-time buyer currently living in apartments. This segment has provided a constant stream of success to date for LGI, but perception is that this segment is and will continue to be challenged by credit access constraints, interest rate volatility, price increases, and underlying all of these factors, jobs and income lumpiness.

\* TIMING: LGI chose to move forward with its plan, partly so that it could move out of its helpful-but-constraining relationship with private-equity partner GTIS, lowering the cost of its financing, and partly because it wants to move aggressively on the plus side into new market arenas where it can exploit its unique selling process as market differentiator. The Taper threat, the shutdown, the noise, the "90-day pause" in housing momentum conspired to make LGI's path to its IPO a trying one, and the pricing probably reflects a hit based on some or all of those factors in combination.

\* TIMING TWO: Imagine being on your "road-show," trying to book appointments with important institutional investor representatives the same week as the Twitter folks. Filling the book of orders amid all the secular cross-winds was going to be a challenge enough, but the mere reality of trying to get attention and meetings at the same time as the humongous Twitter play was probably a mojo suppressor.

At least some credit for the aggressive, unsinkable forward motion on this deal goes to the LGI partnership with GTIS and with Tony Avila and his team at the Builder Advisory Group.

Just after the stock started trading this morning, we caught up by telephone with Lipar. Accustomed as he is to creating a stir almost wherever he goes, Eric told us that the 80 or so people he had with him at the opening bell ceremony this morning is a NASDAQ record for such events. Here are a few other highlights of the moment:

\* RUNWAY: LGI owns and controls about 11,000 lots, so it has a runway for growth and now can apply some of the proceeds of the raise to taking down those controlled lots, and building through the pipeline;

\* EXPANSION: Lipar says the first iteration of expansion will be leveraging the strength of his regional presidents in Arizona, Georgia, and Florida to open new operations in neighboring markets; for instance, LGI is opening operations in Tucson and plans to hang up its shingle in the Albuquerque, NM, market in the next couple of weeks.

\* THE LGI SYSTEM: Like other builders, LGI will focus future growth plans on markets that show high growth in jobs, incomes, and economics, but the other big factor in looking for opportunity is heavy concentrations of renters, LGI's primary target.

"We believe our system will work in any market in the country, and we look forward to expanding into many of these markets as we carry out our plan," Lipar said. Then he rejoined his team to celebrate, however briefly, the moment.