

TRX, INC.: INITIAL PUBLIC OFFERING

Synopsis

The “TRX, Inc.: Initial Public Offering” case provides a comprehensive depiction of a firm’s decision to undertake an initial public offering (IPO) and the process of going public. The case follows the sequence of events from the company’s incorporation in 1999 through the completion of an IPO in September 2005. In addition to raising capital, the case includes consideration of another motivation for going public. At the time of its incorporation in November 1999, TRX attempted to go public, but in the ensuing dot-com collapse the IPO was never completed. In response to the failed IPO, TRX’s president and CEO, Trip Davis, turned to strategic investors to raise \$20 million in a note convertible into equity at \$11 per share. Although Davis had hoped the strategic investors would provide guidance and business opportunities for TRX, they never materialized. By 2004, he had come to believe that the largest strategic investor, Sabre, Inc., was not working in TRX’s best interest. Thus the IPO is motivated by a twofold purpose: to raise money and to provide for a strategic reorganization of the firm’s ownership structure.

Unlike so many high profile companies featured in IPO cases, TRX represents a smaller, lesser-known company that faces significant challenges in becoming known and attractive to investors. Therefore, it presents an opportunity for students to learn about the more frequently encountered type of firm that goes public—one whose company notoriety has not already sold it to investors (as it had with Google, Netflix, Amazon, etc.). TRX is a midsize technology company serving the travel- and financial-services industries. Most of TRX’s transaction-processing and data-integration business is “behind the scenes,” which complicates investors’ understanding of the company and their ability to benchmark against market comparables. Although the company has enjoyed strong revenue growth, it has yet to produce a profit. In addition, TRX has some unresolved operational issues that cloud the picture with respect to its future growth prospects. Market conditions in 2004 and 2005 are mixed; it is difficult to gauge investor interest in technology IPOs.

TRX’s road show produces bad news: TRX will not be able to sell its shares at a price within the preliminary file range of \$11 to \$13 per share. Based on available demand, it appears that the offer price will have to be lowered to \$9 per share to complete the offering. The \$9 price is below the conversion price on the note, threatening the strategic investors’ willingness to proceed with the IPO. Management is confronted with a tough choice—whether to proceed with the IPO offer or to cancel it and seek alternative sources of funds.

Questions

1. In general, what attributes make a company a good candidate for an IPO?
2. How does TRX compare on these dimensions?
3. How favorable is the market climate for the TRX IPO?
4. How does the strategic repositioning of the company and the use of the IPO as an exit for minority shareholders affect the attractiveness of the IPO?

5. Estimate a preliminary file range for TRX's shares.
6. Given the situation Davis faced in September 2005, what would you recommend that he do with respect to the offering?