

# *A Tale of Two Stocks*

## *a.k.a. Ubid Case (condensed)*

### *Introduction*

The time was December 9, 1998... (in a galaxy far, far away... ☺) There seemed to be an attractive investment opportunity involving two companies, Creative Computers and Ubid...

### *Creative Computers*

Creative Computers was a company with a primary business consisting of distributing computers and computer peripherals through catalogs. Creative developed the Ubid website (<http://www.ubid.com/>) devoted to selling factory excess and refurbished goods through an auction format. The Ubid subsidiary proved to be extremely successful in generating sales. In its first quarter of operation, it generated \$2.1 million in sales. However, Creative Computer's managers did not believe that their stock price (traded on the NASDAQ under the symbol "MALL") accurately reflected the potential of their newly developed internet business. To raise the market's awareness of the internet portion of their business, Creative Computers decided to carve-out the internet subsidiary. On July 6, 1998, they announced their plans to sell approximately 20% of the equity of the Ubid subsidiary in an initial public offering. The remaining 80% of Ubid would be distributed to Creative Computers' shareholders in a tax-free spin-off six months after the Ubid IPO.

### *Ubid*

Ubid sold 1.817 million shares (20% of total 9.15 million shares issued) for \$15 per share on December 3, 1998. That was the top of the expected range of \$14-to-\$15 set by Merrill Lynch & Co., the lead underwriter of the equity issue. Creative Computers received proceeds of \$25.3 million, after subtracting \$1.9 million in underwriting fees. In the first day that Ubid was publicly traded (December 4, 1998), its shares opened at \$38, more than double their IPO price. The shares traded above \$60 before closing the first day at \$48. According to Securities Data Co., it was the fourth-best first-day trading gain by a U.S. IPO this decade. Based on 9.15 million post-IPO shares outstanding, Ubid closed its first day as a publicly traded company with a market capitalization of \$439 million.

### *Trading Strategies...*

On December 9, 1998 Creative Computers stock price was \$22.75, and Ubid stock price was \$35.6875. This was amazing, since each Creative Computers' shareholder would receive 0.7159 shares of Ubid on June 7, 1999 (\$25.55 value as of December 9, 1998).

*What do you think about shorting Ubid and going long with Creative Computers, and holding this position until June 7, 1999?*