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## IPOS

# Synchrony IPO Gets a Tepid Reception

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By MATT JARZEMSKY

Updated July 30, 2014 7:57 p.m. ET

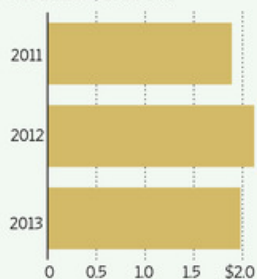
Credit-card issuer Synchrony Financial's initial public offering, the biggest in the U.S. this year, priced at the low end of expectations, a sign of tepid demand for the latest company to offer investors a way to play the recovery in consumers' finances.

Stamford, Conn.-based Synchrony is being spun off from [General Electric Co.](#) ([GE -0.32%](#)), the latest in a series of moves by the conglomerate to shrink its finance business. Synchrony is the largest issuer of so-called private label or store-branded credit cards, lending to the customers of retailers such as [Wal-Mart Stores Inc.](#) and [Amazon.com Inc.](#) ([AMZN +2.15%](#))

## In the Cards

Synchrony Financial's initial public offering was slated to be the largest U.S. IPO in two years, reflecting the recovery of consumer spending and the growth of the credit-card industry.

### Synchrony Financial's net income, in billions



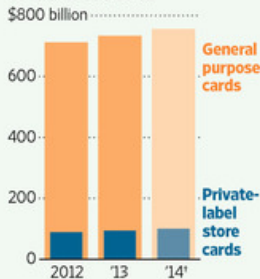
\*Reflects performance since first day's trading closing price †Projection

Sources: the company (net income); WSJ Market Data Group (share performance); The Nilson Report

### Share performance



### Outstanding balances on U.S. credit cards



The Wall Street Journal

These cards, administered by lenders but issued in the name of retailers and other partners, have seen greater increases in overall balances than general-purpose credit cards in recent years.

While some money managers say that growth is attractive, others worried that Synchrony's assets will be seen as lower-quality than those of peers such as [Capital One Financial Corp.](#) ([COF +0.92%](#)) and [Discover Financial Services](#), ([DFS +0.57%](#)) issuers of their own name-brand credit cards.

A decline in net income at Synchrony last year and investor perception that private-label cards carry more credit risk represent potential headwinds for the stock, said Evan Staples, who covers financial companies as a senior research analyst at Nuveen Asset Management, which oversees \$122 billion.

"The debate's going to be, how does this stack up to Capital One and Discover?" he said. He declined to say whether he would buy shares in Synchrony's offering.

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Synchrony sold 125 million shares for \$23 late Wednesday, according to people familiar with the offering, raising \$2.88 billion. That could increase to \$3.3 billion if underwriters exercise an option to sell additional shares, which would make the IPO the biggest by a U.S. company since [Facebook Inc.](#) ([FB +0.01%](#))'s in May 2012, which raised \$16 billion.

In 2013, Synchrony's profit fell 6.6% to \$1.98 billion as higher costs and an increase in funds set aside to cover bad loans offset an increase in net interest income.

Moreover, the last two big consumer-finance IPOs haven't worked out for investors. The IPOs of auto lenders [Ally Financial Inc.](#) ([ALLY +0.31%](#)) and [Santander Consumer USA Holdings Inc.](#), ([SC -1.36%](#)) the two largest in the U.S. this year besides Synchrony's, raised \$2.56 billion and \$2.04 billion, respectively. But both stocks are trading below their IPO prices.

In issuing store-branded credit cards, Synchrony competes with the likes of [Citigroup Inc.](#), ([C +0.50%](#)) [Alliance Data Systems Corp.](#) ([ADS +0.87%](#)) and [Wells Fargo WFC +1.27%](#) & Co. Outstanding balances on U.S. private-label store credit cards stood at \$93.7 billion in 2013, up 6% from a year earlier, according to the Nilson Report. Over the same period, outstanding balances for general-purpose cards rose just 3%.

Because Synchrony's closest peers are units of large diversified companies, investors say lenders like Capital One and Discover are more comparable. Both have substantial card businesses though Capital One in particular has diversified into retail banking, auto lending and other areas.

These companies have benefited from widespread loan growth and improved credit performance. Capital One's shares are up 6.5% this year, just shy of the S&P 500's 6.6% advance, while Discover has gained 12%.

But some say Synchrony's position in private-label cards helps it stand out. Synchrony's net interest income rose 11% to \$10.57 billion in 2013, helped by higher spending on its cards and a decline in so-called net charge-offs, or loans that lenders don't think they will be able to collect.

"It's definitely an above-average growth profile," said Michael Mattioli, a senior analyst in John Hancock Asset Management's U.S. Core Value group, which manages about \$13.5 billion.

"All the trends in consumer credit just keep getting better," he added. "We don't know how long that lasts for—everything's cyclical—but so far, it's excellent." Mr. Mattioli didn't comment on whether he would buy shares in Synchrony's IPO.

The deal adds to a flood of new share listings this year, fueled by persistent investor demand for U.S. stocks even as indexes are near all-time highs. In the year to date, 181 companies have gone public in New York, raising \$39.1 billion. That is the most in like year-earlier periods since 2000, both in the number and dollar volumes of offerings.

Additionally, Chinese e-commerce firm Alibaba Group Holding Ltd. is plotting a U.S. listing that could raise more than \$20 billion in September, The Wall Street Journal has reported.

Synchrony is due to begin trading on the New York Stock Exchange Thursday under the symbol "SYF." [Goldman Sachs Group Inc.](#) ([GS +0.85%](#)) is leading the offering with [J.P. Morgan Chase JPM +0.30%](#) & Co., Citigroup and [Morgan Stanley MS +0.73%](#)

## Corrections & Amplifications

Synchrony shares priced at \$23 each Wednesday. An earlier version of this story incorrectly said the shares priced in a range of \$23 to \$26.

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