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Morningstar reconstitution shows bleak year provides good timing for “established” IPOs

Morningstar Indexes announces the addition and deletion of securities from its family of 16 U.S. equity indexes. The list of additions and deletions is part of the index reconstitution process, which occurs twice annually in July and December. There were 43 new companies added and 198 companies deleted from the Morningstar US Market Index—a proxy for the broad U.S. equity market.

Of the 43 new companies being added to the Morningstar US Market Index, only 15 went public this year, underscoring a difficult year for IPO's. The appetite for new companies diminished as skeptical investors demanded proven track records over high hopes. Bucking the trend were—

- LeapFrog (LF), a maker of educational tech toys—which was the best performing IPO for the year. After debuting at \$13 a share in July, the stock catapulted to a high of \$35.70, after posting good third quarter-earnings. More recently, it has traded lower at about \$23 per share, still outperforming the overall market by a huge margin.
- Petco (PETC), a leading pet supply retailer, began trading again in February 2002, after a brief hiatus. The company, which operates 600 stores nationwide and sells pet supplies on its Web site, first went public in 1994, but stopped trading when its board took the company private in October 2000, believing its shares were undervalued on the market. The stock gained 20% since it went public this year.
- Choosing to focus on core businesses, larger companies opted to spin-off their non-core businesses and create the largest IPO deals of the year.
- CIT Group (CIT), a financial services spin-off from Tyco, was the year's biggest IPO in terms of proceeds. The deal raised \$4.6 billion, making it the fourth richest U.S. IPO ever.
- Financial services giant, Citigroup spun-off Travelers Property Casualty (TAPA), the insurance provider. When it debuted at \$18.50 on March 22, the IPO raised \$3.9 billion, making it the second largest IPO of the year.
- Debuting only one day before Travelers, leading eye-care company Alcon (ACL) left the Swiss conglomerate Nestle. With a \$2.3 billion offering, the deal is billed as the largest IPO ever in the health sector.

Both Citigroup and Nestle (not a member of Morningstar US Market Index) enjoyed a hefty boost in their own stock price following the late March offerings.

By resetting the index membership twice annually, the Morningstar Indexes capture the most accurate picture of the current market. Using the latest information available for assessing a company's fundamental information, market capitalization, and liquidity, the Morningstar US Market Index selects the 97% market capitalization of the investable universe. Consistent and objective membership rules help the indexes strike the right balance between comprehensive market coverage and investability.

For a complete list of securities in Morningstar U.S. Market Index, send an email to indexes@morningstar.com.