THE GLOBE AND MAIL

March 3, 2020

Amid uncertain market, GFL shares sink on first day of trading

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CARLOS OSORIO/REUTERS

GFL Environmental Inc. shares fell more than 11 per cent on Tuesday afternoon as the waste-management company made its debut on the Toronto Stock Exchange and the New York Stock Exchange amid punishing market conditions.

GFL finished its first day of trading on the TSX at $22.40 a share, 11.6 per cent below the $25.33 initial offering price. The company had already cut its IPO price below the $26.66 to $28.00 range it had anticipated last week.

The IPO was the third largest in the history of the TSX, according to the TMX Group, with Toronto-based GFL raising $2.78-billion – $1.9-billion of which came from the sale of subordinate shares, and the remainder which came from the sale of “tangible units,” a combination equity and debt instrument.

The company, however, hit the market at a moment of extreme uncertainty, with share prices buckling amid fears about the economic impact of COVID-19. The S&P 500 Index fell 2.8 per cent Tuesday despite a half-point interest-rate cut from the U.S. Federal Reserve, while the S&P/TSX Composite Index lost 0.78 per cent. Last week, markets around the world suffered their sharpest decline since the 2008 financial crisis.

The role of stabilizing the GFL’s sagging share price falls to a syndicate of investment banks that acted as joint book runners on the deal, which includes JPMorgan, BMO Capital Markets, Goldman Sachs, RBC Capital Markets and Scotiabank.

There was considerable interest on Bay Street in getting the deal across the finish line. Questions about pricing, however, have dogged the company’s attempts at going public since last summer, when it first announced plans for an IPO.

Throughout the early fall, GFL tried to build support for a public offering that priced its shares between US$20 to US$24. Institutional investors and investment bankers balked at the price, urging the company to reprice the deal to US$18 a share.

Instead of repricing the deal, GFL scrapped it. The company then raised $1.4-billion in December through a combination of debt and private equity, supported by its main backers, private equity firm BC Partners Securities LLC and the private capital arm of Ontario Teachers’ Pension Plan.

A renewed effort to go public gained momentum amid a run-up in public markets at the end of 2019 and through into February. Over that period of time, GFL’s main waste-management rivals Waste Connections Inc., Republic Services Inc. and Waste Management Inc. saw their share prices jump 15 per cent, on average. All three have largely given up those gains since mid-February when the markets turned.

“We think many investors may still find the deal pricey at the current offer range, however GFL’s updated deal structure likely has a better shot at closing,” ***Darryl McCoubrey***, an analyst at ***Veritas Investment Research***, wrote in note published on Friday.

BC Partners and Teachers remain the largest shareholders of GFL after the public offering, respectively owning 39.9 per cent and 15.6 per cent of the company’s outstanding shares.

GFL chairman and CEO Patrick Dovigi owns 3.7 per cent of the outstanding shares post-IPO, although he controls 27.8 per cent of the company’s voting rights through the ownership of multiple voting shares, each which carry 10 votes a share.

The company, North America’s fourth-largest diversified waste-management business, plans to use the proceeds from the public offering to pay down debt and potentially to make acquisitions.