

Lecture 4 PRIMARY MARKETS

Equity, Bonds and Corporate Loans

Capital Markets

- Equity
- Bonds
- Corporate Loans

Primary Offerings is one in which the proceeds of the underwriting go to the issuer (company) (Equity/Bonds)

Shelf offerings (rule 415) deals with issuers who want to sell securities only on the occurrence of particular market event. The issuer files a shelf registration statement with the SEC which, once effective, is good for 2 years. This permits issuers to match financing needs with market conditions (Equity/Bonds)

INVESTMENT BANKER – UNDERWRITING COMMITMENTS

FIRM COMMITMENT (Equity, Bonds, Corporate Loans)

The Underwriter is fully committed to buying securities from the issuer and paying the underwriting proceeds to the company. The Underwriter does this without full assurance that the securities can be resold to the public/other institutions at a profit.

BEST EFFORTS (Equity, Bonds, Corporate Loans)

A best efforts arrangement calls for the underwriter to buy securities from the issuer as agent, not principal. The underwriters are not committed and therefore not at risk.

CAPITAL MARKETS

- **Debt Market (Loan /Bond Markets)**
- **Equity Market**

- Derivatives

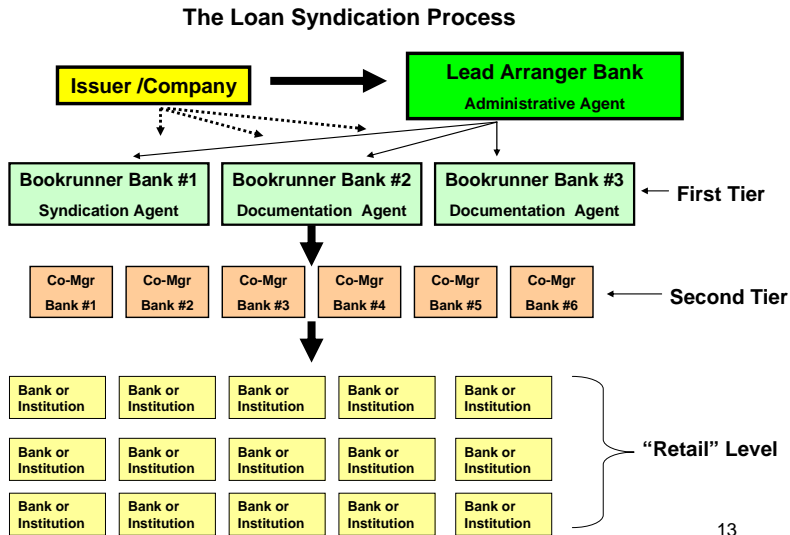
Debt Markets - Process -Primary

| | S&P | Moody's |
|----------------------|------|---------|
| Risk Free | AAA | Aaa |
| INVESTMENT GRADE | AA+ | Aa1 |
| | AA | Aa2 |
| | AA- | Aa3 |
| | A+ | A1 |
| | A | A2 |
| | A- | A3 |
| | BBB+ | Baa1 |
| NON-INVESTMENT GRADE | BBB | Baa2 |
| | BBB- | Baa3 |
| | BB+ | Ba1 |
| | BB | Ba2 |
| | BB- | Ba3 |
| DISTRESS | B+ | B1 |
| | B | B2 |
| | B- | B3 |
| | CCC+ | Caa1 |
| | CCC | Caa2 |
| DISTRESS | CCC- | Caa3 |
| | CC | Ca |
| | C | C |
| Defaulted | D | C |

NOTCHES

Bank Loan Process (Syndications) - Primary





LOAN SYNDICATION PROCESS

- The issuer or Company solicits bids from Arrangers.
- Arrangers will outline their syndication strategy and their view on the way the loan will price in market.
- Issuer gives the mandate to one or more Arrangers (Co-Arrangers)
- The arranger will prepare an information memo (IM) describing the terms of the transactions.
 - The IM typically will include:
 - Executive Summary
 - Investment Considerations
 - Summary of Terms and Conditions (Term Sheet)
 - Transaction Overview
 - Company
 - Management and Equity Sponsor Overview
 - Industry Overview

Investment Banking

Prof. Droussiotis

- Financial Model
- Timing for commitments, closing, as well as fees on level of commitments

- Bank meeting is scheduled at which potential lenders hear the management and the Investor group.

- A deadline is given for the banks to send their commitment levels subject to final documentation

- Each Bank analyzes the deal's credit and assess the pricing (RORA). Each Issuer is assigned an internal rating.

- The Arranger collects all commitments – different amounts from each Bank

- Allocations are given and Legal Documentation is sent for their final review.
 - If the Deal is Oversubscribed, the allocation of each bank will most likely be reduced
 - If the Deal is undersubscribed, depending on the FLEX language, the pricing could be flexed up.

- After Review of Legal Documentation by each lender and signatures are sent, the Deal closes and funds.

Money Terms:

Amount, Rate, Maturity, Schedule Payment

Security:

Assets, Stock

Covenants:

Financial Covenants:

Negative Covenants: Asset Sale, New Debt, Equity,

Affirmative Covenants

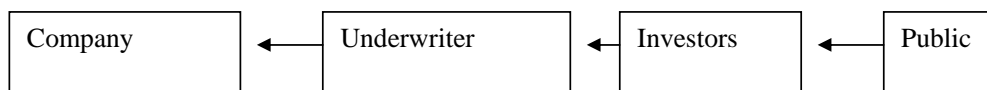
Rating Agency:

Investment Banking

Prof. Droussiotis

Provide Ratings Sheet

Bond Issuance Process (Road Show) - Primary



File with SEC

Review by the SEC

Red Hearing

Rating Agencies - Presentations

Road Show – Presentations

Within a week – Priced

Closed at a price (Common – weighted towards the bigger Investor)

(Note – Private Placement)

Equity Market - Process -Primary

Private Placement

Public (IPO)

SECONDARY MARKET

Stock Prices Represent the Market Value of the Firm

$$\boxed{\text{(Stock Price * Outstanding=Equity Value) + Debt – Cash = Enterprise Value}}$$

Comparison = **PE Multiples** Concept / EBITDA Multiples

Comparison Vs Dow Jones trends Vs S&P 500

Beta Concept – Volatility