

# SECURITIES MARKET FUNDAMENTALS AND UNDERWRITING ISSUES

PRICEWATERHOUSECOOPERS 

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SECURITIES MARKET FUNDAMENTALS  
AND  
UNDERWRITING ISSUES  
SCRIPT

(Asterisks are in place to assist with Russian language PowerPoint Presentation)

(1) We have five major topics of discussion today \*\*\*\*\*

(2) We will be going over some material today that will not be new to you, but we need to examine some basics. Also, this material eventually may be presented to persons not nearly as knowledgeable about securities as you \*

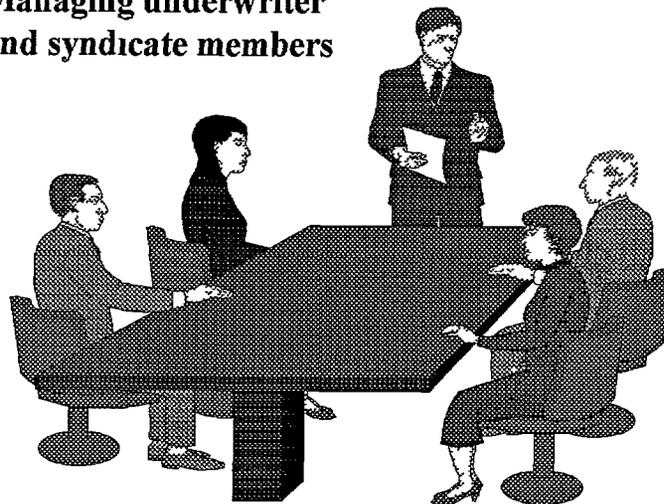
When a company first issues stocks or bonds it will do so in what is called a primary market. The very first issue of securities is usually called IPO – Initial Public Offering \*. The usual operation involves a broker-dealer or a syndicate of broker-dealers assisting the company in putting together the deal -- including giving a considerable amount of procedural and financial advice -- registering the issue with the Securities Commission, and when the new issue is authorized, buying the issue from the company and, in turn, selling the securities to the investing public at a profit.

# Primary Markets

- Securities are sold for the first time in **primary markets**
- **Investment bankers underwrite and sell new issues.**

3

**Managing underwriter  
and syndicate members**



4

4

(3) \*\* This function of a broker-dealer is called “investment banking” or “underwriting”

(4) \* Here we see a managing underwriter or lead underwriter at a meeting with other members of the underwriting syndicate. Discussions will take place involving the preparation of a prospectus, the price for which they think the shares will sell, responsibilities and liabilities of members of the syndicate, remuneration, due diligence, and other topics as needs arise



(5) Let's go through an example \* A company wants to raise capital for some good reason  
In this case, about 500 million dram is the amount needed A brokerage firm is contacted  
and an agreement is reached determining that the brokerage firm will act as lead  
underwriter in this offering

\* A syndicate is formed between the lead underwriter and other brokerage firms The  
syndicate determines that shares can be sold to the investing public for 5000 dram each, so the  
price is fixed for that amount

\*\* Fees must be considered, so 110,000 shares will be offered \* The full length of the line  
represents the share price, 5000 dram, but we have divided the line into two unequal parts  
The smaller part – 500 dram – is the “spread” the underwriters receive from each share sold as  
their fee for involvement in the issue (I have used 10% of the share price as the underwriters’  
compensation in this example only to make the arithmetic easier to do It would probably be a  
smaller percentage, especially for a large offering ) The larger part – 4500 dram – is the  
amount the company receives from each share sold \* As you can see, when all the shares are  
sold, a total of 495 million dram will be raised for the company, \* while the underwriters  
receive 55 million dram in fees

\*\* There are two basic types of underwriting They are called \* firm commitment and \*best  
efforts We will explain each one

(6) \*\* In a firm commitment underwriting the underwriters agree to buy all the shares being  
offered by the issuer The underwriters pay a certain price for each share and then sell shares  
to investors at a higher price \* This higher price is called the public offering price or P O P  
\*\* (fast)

**Firm Commitment Underwriting:**

If the underwriters do not resell all the securities, they assume the investment risk involved, and may lose money.

7

**Best Efforts Underwriting:**

The underwriters agree to use their “best efforts” to sell the securities.

However, they are not required to buy the balance from the company.

8

8

(7) \*\* In a firm commitment underwriting, if the underwriters are not able to sell all the securities to investors they could lose money \*\* After all, they bought all the shares from the issuer, so they make a profit when all the shares are resold

(8) \*\* We have talked about firm commitment, now let's talk about best efforts \*\* Also, there are different types of best efforts which we will explain in two more slides, but the names are ALL OR NONE and MINI-MAXI \*\*

## **Best Efforts Underwriting:**

The underwriters merely act as agent for the issuer.

They are not at risk if all the securities are not sold.

9

## **Best Efforts Underwriting:**

**All or none:** The deal is contingent on the entire issue being sold

**Mini-Maxi:** The deal is effective if a certain minimum amount of money is raised, then the underwriters agree to keep selling until a maximum amount is raised Example  
\$2,000,000 mini -- \$5,000,000 maxi

10

(9) \*\* In a best efforts underwriting the syndicate agrees to try hard to sell all the shares being offered That is, to use their "best efforts" to sell them \* But they are not required to buy the rest of shares from the company like what is the case in a firm commitment

(10) \*\* One type of best efforts underwriting is called all or none In this case, the entire supply of shares being offered by the company must be sold by the underwriters or the deal is cancelled, and any money paid by investors must be returned to them \* In a mini-maxi underwriting, a certain number of shares must be sold or amount of money must be raised before the deal is declared effective Once that amount is reached, the underwriters will keep selling until a maximum amount of money is raised Here we use \$2 million mini and \$5 million maxi as an example

\*\* In a best efforts underwriting the syndicate act as agents for the issuer to sell the shares, but are not at risk of losing any money \*

## Primary Markets

- Securities are sold for the first time in **primary markets**
- Investment bankers underwrite and sell new issues
- **New issues sold through private placements.**

11

## Primary Markets

- Securities are sold for the first time in **primary markets**
- Investment bankers underwrite and sell new issues
- New issues sold through private placements
- **Include additional offerings by firms**

12

12

(11) \*\* New issues can also be sold through private placements involving one or several large or institutional investors. Procedures are simpler and less expensive than public offerings.

(12) \*\* Activities in primary markets include secondary offerings by firms. That is, established companies which have issued shares in the past may have a need for additional capital in the future for any number of good reasons. They may choose to go through the underwriting process in order to issue additional securities to raise such capital.

# Primary Markets

- Securities are sold for the first time in **primary markets**
- Investment bankers underwrite and sell new issues
- New issues sold through private placements
- Include additional offerings by firms

13

# Secondary Markets

- **Markets in which existing securities change hands are secondary markets.**

14

(13) \*\*\*\*\*So far, we have discussed a little about primary markets. What questions do you have?

(14) \*\* After securities have been issued in primary markets, they are traded in secondary markets. I am from Seattle, and I remember when Microsoft made its initial public offering in 1986. Too bad I did not buy a lot of it. It was sold initially at \$21 a share. At the end of the first day of trading the market price was \$27.75. There have been several splits, so each share from 1986 has become 72 shares. A person buying 100 shares in 1986 for \$2100 now owns 7200 shares worth over \$800,000. Many, many employees and managers at Microsoft are wealthy now because they have bought shares over the years – especially early.

## Secondary Markets

- Markets in which existing securities change hands are secondary markets
- **These include exchanges and over-the-counter markets.**

15

**With strong secondary markets for existing securities, investors are more inclined to purchase them in the primary market in the first place.**

16

(15) \*\* Secondary markets include exchanges and over-the-counter markets. Usually the larger, well-established companies are listed on exchanges in the U S , while it is common for younger, smaller companies to trade over-the-counter or on NASDAQ

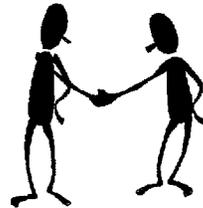
(16) \*\* The success of primary market activity is directly influenced by the strength of secondary markets. Investors buy securities when they know there is a system in place to sell them when they so choose

**Strong secondary markets give enterprises valuable information about market conditions for new and additional issues of securities.**

17

## Exchanges

- An exchange is simply a **place** established by financial professionals in order to facilitate the trading of securities.



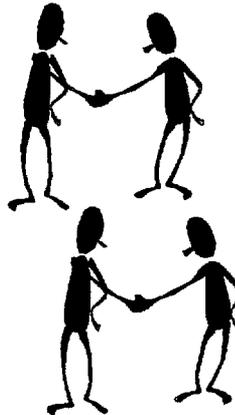
18

(17) \*\* Strong secondary markets give enterprises valuable information about market conditions for new and secondary issues of securities This includes information about supply and demand, prices, interest in specific sectors of the economy of the country or region, and other readily accessible information available as a result of active trading

(18) \*\* An exchange is a place In the U S , in New York City, we have the New York Stock Exchange and the American Stock Exchange \* There are a few regional stock exchanges elsewhere in the country In addition, there are options and futures exchanges in the U S

# Exchanges

- The exchange itself does not buy or sell securities; brokers at the exchange perform such transactions.



19

# Exchanges

**Brokers at an exchange can conduct transactions between:**

- investors;
- brokers and investors;
- brokers and brokers.

20

(19) \*\* Again, an exchange is a place where trading occurs. The exchange itself does not buy or sell securities, brokers who are members of the exchange are involved in those activities \*\*\*

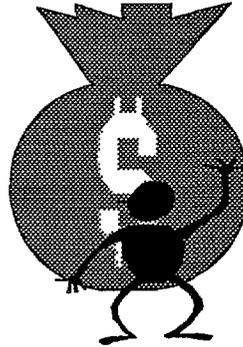
(20) \* Member brokerage firms can conduct transactions between members of the public \* For example, Broker A has a client who wants to buy some shares of a company, and Broker B has a client who wants to sell shares of the same company. These orders are input into the computer system at the exchange, and if a price is agreed upon, the deal is done. Each brokerage firm earns a small commission for its services.

\* Member brokerage firms can conduct transactions between themselves and members of the public. For example, Broker A has a client who wants to sell some shares of a company. If there is no buyer available at that time, Broker A may choose to buy the shares for its own inventory, hoping to sell the shares at a later time for a profit. In this case, Broker A is acting as a “dealer” not a broker.

\* Member brokerage firms can conduct transactions between themselves. For example, Broker A wants to sell some shares of a company from its inventory, and Broker B wants to add some shares of the same company to its inventory. They agree on a price and complete the transaction. This is another example of dealer transactions.

## Stock Exchange

- **Provides liquidity for shares**



21

## Stock Exchange

- Provides liquidity for shares
- **The most successful companies usually seek listing on an exchange.**

22

(21) \*\* The stock exchange provides liquidity for shares. Liquidity means that the securities can be sold for cash. As long as a price can be agreed upon, and there are no problems transferring ownership of the securities, the cash will be in hand usually in a maximum of three business days – and often on the same day of the sale. \*\*

(22) \*\* Large, successful companies usually seek listing on an exchange. Normally, there is considerable interest in these companies, and being listed on an exchange makes it easier to trade their shares.

# Stock Exchange

- Provides liquidity for shares
- The most successful companies usually seek listing on an exchange
- **Investors have a greater degree of confidence.**

23

# Stock Exchange

- Provides liquidity for shares
- The most successful companies usually seek listing on an exchange
- Investors have a greater degree of confidence
- **Company prestige, public awareness enhanced**

24

(23) \*\* Investors seem to have a greater degree of confidence in companies that are listed on an exchange. This is probably due to (1) the stringent rules and procedures involved with listing (for example, high standards for listing, and maintenance of those standards through regular reporting requirements) and (2) the fact that there is usually a lot of publicity about listed companies. \*

(24) \*\* There seems to be a certain degree of prestige associated with being listed on an important exchange. In the U.S., many companies make a point of informing their shareholders and the public that the company "is listed on the New York Stock Exchange." The NYSE is called the "big board" in the U.S., so being listed on it is considered something special. What is the "big board" here?

# Stock Exchange

- Provides liquidity for shares
- The most successful companies usually seek listing on an exchange
- Investors have a greater degree of confidence
- Company prestige, public awareness enhanced
- **Access to foreign investors**

25

# Stock Exchange

- Provides liquidity for shares
- The most successful companies usually seek listing on an exchange
- Investors have a greater degree of confidence
- Company prestige, public awareness enhanced
- Access to foreign investors



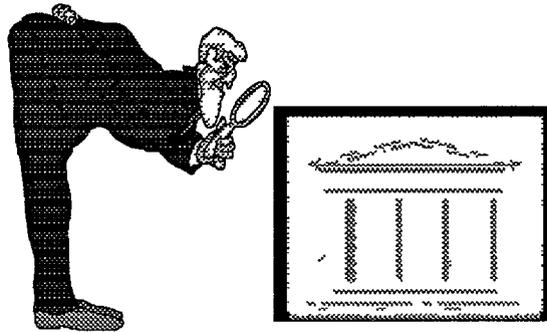
26

(25) \*\* When foreign investors are looking at the Republic of Armenia with an eye toward investing, they will probably contact a stock exchange and/or brokerage firms for information about companies

(26) \* Let's pause here for a while What questions do you have so far? \* Remember, we are working to help develop strong capital markets in Armenia

# Stock Exchange

- **Closely regulated**



27

# Stock Exchange

- **Establishes history of share prices**



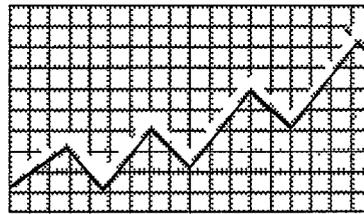
28

(27) \*\*A stock exchange will have developed strict rules and procedures for their members,  
\*and is closely regulated by a country's securities commission

(28) \* Transactions at exchanges are recorded and published, so a history of share prices is  
established \*\*

# Stock Exchange

- Establishes history of share prices
- **Capital gains possibilities for shareholders**



29

# Stock Exchange

- Establishes history of share prices
- Capital gains possibilities for shareholders
- **Establishes history of company's profits**



30

(29) \*\*With histories of share prices known, some shareholders will take the opportunity to sell shares at a profit or take advantage of temporarily depressed prices to add to their holdings \*

(30) \*\* Listed companies file periodic informational reports These reports include such things as earnings, profits, dividends, etc Investors use such information when considering investment strategies \*

## Stock Exchange

- Establishes history of share prices
- Capital gains possibilities for shareholders
- Establishes history of company's profits
- Establishes history of dividend payments from company's profits
- **More knowledgeable and sophisticated investors**

31

## Stock Exchange

- Establishes history of share prices
- Capital gains possibilities for shareholders
- Establishes history of company's profits
- Establishes history of dividend payments
- More knowledgeable and sophisticated investors
- **Access to more capital**

32

(31) \* \*Over time, those persons who are regular investors become more knowledgeable and sophisticated. Boards of Directors and company managers appreciate having knowledgeable investors as shareholders in their companies, since it makes policies and strategies easier to explain.

(32) \*\* Here is a compelling reason for management of an enterprise to consider listing: doing so can provide access to additional capital in the future. For any number of reasons, a company may want to raise funds. By establishing histories of prices, profits, and dividends, and after building a good reputation, it will be much easier for a company to attract interest from investors concerning any offering of securities the company is considering.

## Stock Exchange

- Establishes history of share prices
- Capital gains possibilities for shareholders
- Establishes history of company's profits
- **Establishes history of dividend payments from company's profits**

33

## Stock Exchange

- Establishes history of share prices
- Capital gains possibilities for shareholders
- Establishes history of company's profits
- Establishes history of dividend payments
- More knowledgeable and sophisticated investors
- Access to more capital



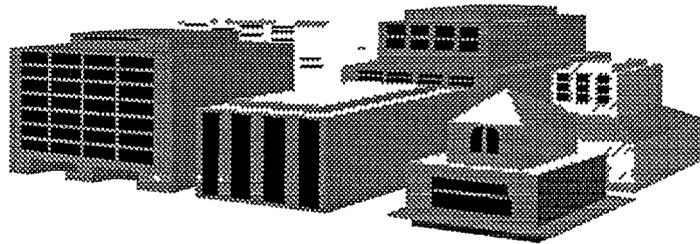
34

(33) Some investors give strong consideration to a company's history of dividend payment when planning investments \* \* Some do not care as much In any case, the information is readily available because of filed reports required by both the stock exchange and the securities regulator By the way, Microsoft has never paid any dividends on its common stock

(34) \*The last point means the "door is opened" to more capital \* Let's pause again What questions do you have about this latest section?

# Access to Capital

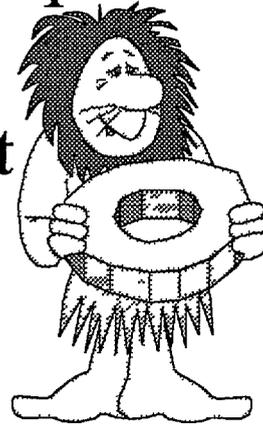
- **New factories**



35

# Access to Capital

- New factories
- **New equipment**



36

(35) \*If companies are going to be able to get additional capital, for what will they use it? As a group we could think of many, but I am showing a few here in the next slides that came to my mind right away

\*\* Factories could be built or purchased

(36) \*\*New equipment can be purchased \* Let's hope it is newer than this man's

# Access to Capital

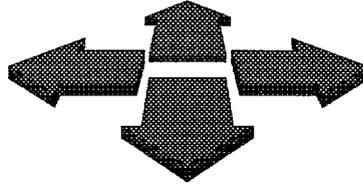
- New factories
- New equipment
- **Key persons**



37

# Access to Capital

- New factories
- New equipment
- Key persons



- **Expand markets**

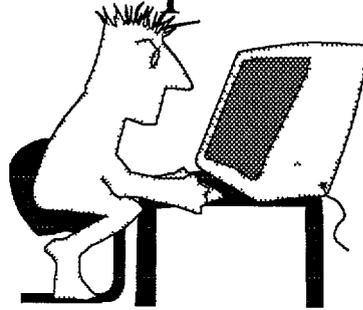
38

(37) \*\*\* Key persons can be hired or retained in order to build productivity and profits as well as be more competitive in current or new lines of business

(38) \*\*\* Markets can be expanded Not only geographically, but from the viewpoint of new products or new uses for existing products – research and development Advertising campaigns can be addressed here

# Access to Capital

- New factories
- New equipment
- Key persons
- Expand markets



- **Technical advances**

39

# Access to Capital

- New factories
- New equipment
- Key persons
- Expand markets
- Technical advances

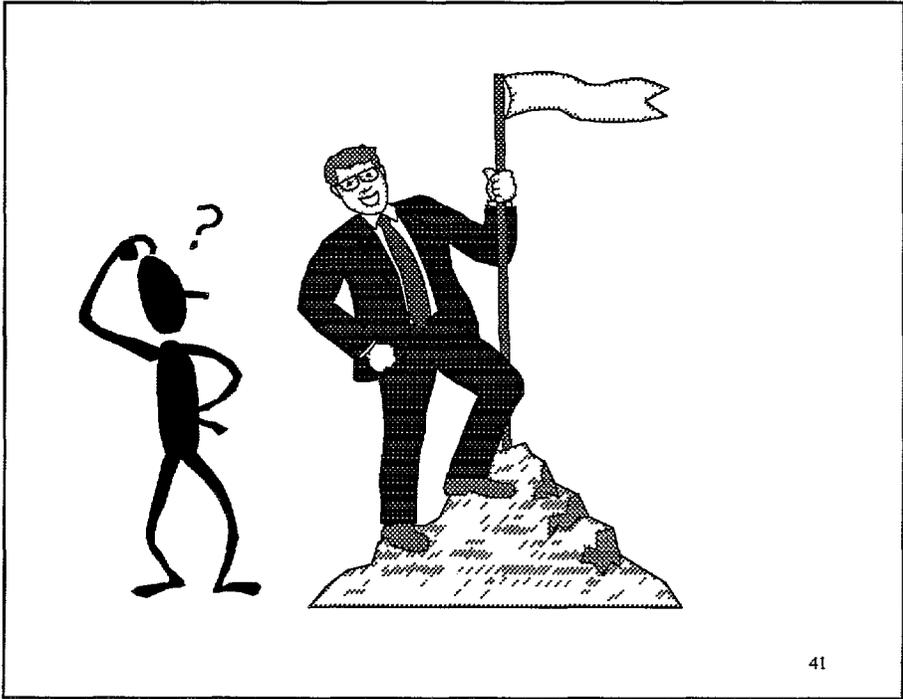


- **Plan for the future.**

40

(39) \*\*Technical advances can be made to increase productivity and profits \*

(40) \*\*Additional capital allows management personnel to take their ideas and plan for the future \*



(41) In a market economy, there are abundant opportunities for success \* \* Skillful, dynamic managers are able to recognize opportunities and apply resources to exploit them \*\* Good leadership is amply rewarded with increased earnings and demands for services \*\*

# UNDERWRITING TERMINOLOGY

Handwritten notes on the right margin, including the word "Underwriting" at the top and several illegible words and symbols below.

# UNDERWRITING TERMINOLOGY

1

## Underwriting Terminology

**Letter of Intent** spells out basic terms of the underwriting.

**Letter of Intent** is signed by the **Issuer** and the **Managing Underwriter (M.U.)**.

2

SCRIPT FOR *UNDERWRITING TERMINOLOGY*  
POWERPOINT PRESENTATION

(1) This seminar deals with the basics of underwriting securities "Underwriting" is the process by which brokerage firms bring new securities to be sold in the capital markets "Securities" can refer to a large number of investment products, but in Armenia at the present time we are limited to bonds, T-bills, and stocks (shares of joint stock companies) We will be talking mostly about stocks

(2) \*\* To begin the process of underwriting, a LETTER OF INTENT is signed This is not a binding contract, but spells out the basic terms of the underwriting It is simply an agreement to set the process into motion \* The letter of intent is signed by the ISSUER and the MANAGING UNDERWRITER or LEAD UNDERWRITER

## Underwriting Terminology

**Issuer:** The company that is raising capital by offering securities for sale to investors

### **Managing Underwriter or Lead**

#### **Underwriter:**

The securities firm selected by the issuer to be in charge of a **Syndicate** of underwriters formed (the boss)

3

## Underwriting Terminology

A lengthy, more formal document between the issuer and the M U. is called the **Underwriting Agreement**, which deals with specifics of the transaction contemplated.

4

(3) \*\*\* The ISSUER is simply the company that is raising capital by offering securities for sale to investors \*\* The MANAGING UNDERWRITER or LEAD UNDERWRITER is the securities firm (a broker-dealer) selected by the issuer to be in charge of a SYNDICATE of underwriters formed The M U is the boss of the syndicate Some offerings are small enough that it is not necessary to form a syndicate, but whether or not to form a syndicate is a decision left completely up to the M U \*

(4) \*\* The letter of intent spelled out the basics of the undertaking An UNDERWRITING AGREEMENT is later signed by both parties This is a longer and formal document which gets into details about the deal

## Underwriting Terminology

Different types of underwriting:

- **Firm Commitment**
- **Best Efforts**

5

### **Firm Commitment Underwriting:**

Underwriters agree to buy -- at a discount -- all the securities being sold. They then resell the securities to investors at the public offering price (POP).



6

(5) \*\* There are two basic types of underwriting They are called \* FIRM COMMITMENT and \* BEST EFFORTS We will explain each one

(6) \*\* In a firm commitment underwriting the underwriters agree to buy all the shares being offered by the issuer The underwriters pay a certain price for each share and then sell shares to investors at a higher price \* This higher price is called the PUBLIC OFFERING PRICE or P O P \*\* (fast)

### **Firm Commitment Underwriting:**

If the underwriters do not resell all the securities, they assume the investment risk involved, and may lose money.

7

### **Underwriting Terminology**

Different types of underwriting:

- **Firm Commitment**

- **Best Efforts**

  - **All or None**

  - **Mini-Maxi**

8

(7) \*\* In a firm commitment underwriting, if the underwriters are not able to sell all the securities to investors they could lose money \*\* After all, they bought all the shares from the issuer, so they make a profit when all the shares are resold

(8) \*\* We have talked about firm commitment, now let's talk about best efforts \*\* Also, there are different types of best efforts which we will explain in two more slides, but the names are ALL OR NONE and MINI-MAXI \*\*

## **Best Efforts Underwriting:**

The underwriters agree to use their “best efforts” to sell the securities.

However, they are not required to buy the balance from the company.

9

## **Best Efforts Underwriting:**

**All or none:** The deal is contingent on the entire issue being sold

**Mini-Maxi:** The deal is effective if a certain minimum amount of money is raised, then the underwriters agree to keep selling until a maximum amount is raised Example  
\$2,000,000 mini -- \$5,000,000 maxi

10

(9) \*\* In a best efforts underwriting the syndicate agrees to try hard to sell all the shares being offered. That is, to use their "best efforts" to sell them. \* But they are not required to buy the rest of shares from the company like what is the case in a firm commitment.

(10) \*\* One type of best efforts underwriting is called all or none. In this case, the entire supply of shares being offered by the company must be sold by the underwriters or the deal is cancelled, and any money paid by investors must be returned to them. \* In a mini-max1 underwriting, a certain number of shares must be sold or amount of money must be raised before the deal is declared effective. Once that amount is reached, the underwriters will keep selling until a maximum amount of money is raised. Here we use 100,000 shares mini and 200,000 shares max1 as an example.

## **Best Efforts Underwriting:**

The underwriters merely act as agent for the issuer.

They are not at risk if all the securities are not sold.

11

## **Agreement among Underwriters or Syndicate Agreement:**

A formal document which establishes the responsibilities and liabilities of each syndicate member.

12

(11) \*\* In a best efforts underwriting the syndicate act as agents for the issuer to sell the shares, but are not at risk of losing any money \*

(12) \*\* When a syndicate is formed, each member signs a formal agreement, the AGREEMENT AMONG UNDERWRITERS or SYNDICATE AGREEMENT \* This document establishes the responsibilities and liabilities of each syndicate member

Sometimes a **Selling Group** is formed.

These are brokerage firms that are not part of the syndicate, but will receive commissions for the shares they sell.

13

### **Due Diligence:**

Responsibility of the M.U.

It is an in-depth *investigation* of the issuer and the information the issuer is providing.

Basically, the M.U. must ensure that there is full and fair disclosure about the issuer and the offering so that investors can make informed investment decisions.

14

(13) \*\* Sometimes a SELLING GROUP is formed. The brokers in the selling group are not part of the syndicate, but they are used to help sell the shares to investors. \* They earn commissions for what they sell.

(14) \*\*\* Something called DUE DILIGENCE is the responsibility of the M U. \* Due diligence is an investigation of the company and the information it is providing. \* The issuer must disclose all vital information so that investors can make informed decisions about investing in shares of the company.

The M.U. runs the syndicate account and determines each member's share of profit or loss after the underwriting is completed

The M.U. gets a management fee from the **spread** on each share sold

15

• **Управляющий гарантом (андэрайтер) и члены синдиката.**



16

(15) \*\* The M U has many responsibilities Among them is the job of doing the syndicate's accounting \* Because of all the responsibilities, the M U receives a management fee for each share sold This fee comes from the SPREAD We will describe spread fully in a few more slides

(16) \*\*\* Here we have a meeting between the M U and members of the syndicate They meet periodically to discuss a variety of subjects about the offering Subjects such as price, compensation, due diligence, and so on are discussed

**Компания желает  
увеличить капитал на  
500,000,000 драм.  
Компания просит  
брокерскую фирму  
оказать ей услуги по  
размещению акций.**

17

**Создан синдикат. В ряд  
обсуждаемых тем  
включен вопрос о цене,  
по которой члены  
синдиката намерены  
продавать одну акцию  
(5000 драм).**

18

(17) \*\* Let's go through this example You may remember this from the earlier seminar  
The company would like to raise 500 million dram A managing underwriter has been  
chosen

(18) \*\* A syndicate has been formed, and they decide that the shares can be sold for  
5000 dram each



(19) \*\* Fees have to be considered, so 110,000 shares will be offered \* The full length of the line is the 5000 dram amount But we have divided the line into two parts The 4500 is the amount the company will receive from each share sold, while the 500 is the amount the underwriters receive for their efforts in selling the issue The SPREAD is 500 \* When all shares are sold, the company will get a total of 495 million dram, \* while the underwriters get 55 million as fees or commissions \* So this 500 is the spread

(20) \*\*\* Here we have depicted the spread by lining up some symbols This full length represents the 500 dram spread from the last slide The M U gets a certain amount from every share sold That is his management fee This section is the part of the spread reserved for a syndicate member even when a share is sold by a selling group member And this section is the commission a selling group member receives for each share he sells \* When the M U sells a share he receives all 500 dram – his management fee and the other 450 dram \*There are two ways a syndicate member receives commissions for shares sold For each share he sells, a syndicate member receives 450 dram A syndicate member also receives 200 dram for each share sold by a selling group member which we will show in the next slide \*\*\* And selling group brokers receive 250 dram in commissions for each share they sell When a selling group member sells a share, the M U still gets 50 dram, and a syndicate member gets 200 dram \*\*\* Here we have some representative percentages, but these are negotiated amounts and can vary from underwriting to underwriting

### Issuer's Responsibilities:

Must give full disclosure in the **Registration Statement** submitted to the **Securities Commission**.

Prepares **Preliminary Prospectus (red herring)**.

21

### Cooling Off Period

The period of time between the filing of the **Registration Statement** and the **Effective Date** (usually 20 days in the U S )

During this time the Securities Commission examines the Preliminary Prospectus for full disclosure, and may request amendments from the issuer

22

(21) \*\*\* The issuer has serious responsibilities. The issuer must give full disclosure of facts in the REGISTRATION STATEMENT that is filed with the SECURITIES COMMISSION. \* Most of the registration statement is a PRELIMINARY PROSPECTUS (also known as the RED HERRING because of red printing on the first page). The preliminary prospectus is a booklet that contains information regarding the new issue, the issuing company, its management, as well as other important aspects of the company such as its products, subsidiaries, and so on.

(22) \*\*\* The securities commission requires time to review information contained in the preliminary prospectus. This time is called the COOLING OFF PERIOD, and is usually 20 days in the U S. \* The cooling off period will be extended if the securities commission finds that the preliminary prospectus needs to be improved regarding full disclosure.

### Cooling Off Period:

There is no price shown on the red herring.

The final price is determined after indications of interest are known and meetings are held between members of the syndicate

23

### Cooling Off Period:

The issue can be sold only through the use of a **Final Prospectus**, so no sales are allowed during the cooling off period, but there is still plenty of marketing activity going on

Red Herrings are sent out to potential clients, but only **Indications of Interest** are allowed, not sales

24

(23) \*\* Sales can be made only through the use of a FINAL PROSPECTUS, which is not ready yet because the commission is not finished reviewing the preliminary prospectus \* Red herrings are sent to some potential buyers to see if they might be interested in buying part of the offering Sales are not allowed, but INDICATIONS OF INTEREST are allowed That is, the underwriters are getting a good idea about how easy or difficult it will be to sell all the shares being offered

(24) \*\*\* No price is shown on the red herring because it has not been determined yet by the syndicate \* They will use indications of interest to help them decide on the final price

## Effective Date:

Finally, the Commission will declare that the registration is effective, thereby establishing that date as the effective date. The **Final Prospectus** is printed with the price shown.

This price is the **Public Offering Price (P.O.P.)**.

25

## Effective Date:

**NOW** the issue can be sold.

In practice, the Final Prospectus is included in the same envelope in which the buyer's Confirmation of Purchase is sent. (In the U S, the mail system is very efficient and reliable.)

26

(25) \*\*\* The commission will finish reviewing the preliminary prospectus and inform the company and underwriters that they may proceed with the offering. The day the commission does that is the EFFECTIVE DATE. \* The FINAL PROSPECTUS is printed with the price shown. \* That price is known as the PUBLIC OFFERING PRICE or P O P. All investors pay the same price.

(26) \*\*\* Now the issue can be sold. \* In the U S it is usual for the final prospectus to be sent to an investor along with his confirmation of purchase.

Often, the syndicate and selling group have accumulated enough indications of interest to easily sell out the entire issue in an hour or so

After the issue is completely sold, the M U disbands the syndicate and calculates each member's share of profit (or loss)

27

The underwriters are selling the new issue in the **Primary Market**. These are previously unissued securities that are being sold for the first time

Once sold in the primary market, these issues are free to be traded in the **Secondary Market**.

Once the issue starts trading in the secondary market, the price can stay the same, or rise, or fall

28

(27) \*\* In the U S the entire issue often sells out in an hour or so, sometimes even minutes, because of the efficiency of computer trading systems \* The M U completes the syndicate accounting to find each member's share of profit or loss and disbands the syndicate This usually occurs within ten days of the sellout

(28) \*\* These new issues are being sold for the first time Such activity takes place in the PRIMARY MARKET \* Once they are sold to investors in the primary market the shares are free to be traded by investors in the SECONDARY MARKET \* Three things can happen to the price of a security in the secondary market the price can stay the same, \* the price can rise, \* or the price can fall

Often there are **Hot Issues**.

A hot issue is one that opens for trading in the secondary market at a price **HIGHER** than the P O P

There are stern rules about who can buy hot issues

A broker would buy it for himself if he could, but that is strictly prohibited

29

Many underwriting agreements include a clause allowing for the underwriters to sell up to 15% additional shares in case of overselling a hot issue

This clause is called the "Green Shoe" clause, named after a company in the U S which was the first company to have such a clause in its underwriting agreement

30

(29) \*\* Often there are what are called HOT ISSUES \* A hot issue opens for trading in the secondary market at a price higher than the P O P \* There are rules about who is allowed to buy hot issues \* A broker or underwriter would like to be able to buy a hot issue for himself, but that is not allowed

(30) \*\* Sometimes there is such a level of interest in an offering that the underwriters want to be able to sell more shares to investors than were originally planned in the deal They can do so if a special clause is included in the underwriting agreement \* It is called an over-allotment clause or "Green Shoe" clause named after the first company in the U S to use such a clause

Sometimes there are **Weak Issues** or **Sticky Issues**.

In such a case, the issue starts trading at a price **LOWER** than the P O P

This would prevent the rest of the issue from being sold out, and the issue would be “stuck” on the hands of the underwriters

To prevent this, the M U will enter a **Stabilizing Bid** in the market

31

## **Stabilizing Bid:**

Stabilizing bids are placed AT or just BELOW the P O P

The stabilizing bid sets a minimum price, so that an investor who bought the issue in the primary market can sell it back to the M U for about what it cost initially

The use of a stabilizing bid gives the primary offering a better chance of being sold out by the syndicate

32

(31) \*\* Sometimes it is difficult to sell all the shares These are known as WEAK ISSUES or STICKY ISSUES \* Trading in the secondary market opens lower than P O P \* Such a happening would prevent the rest of the offering from being sold by the underwriters That is, if we, as investors, could buy our 5000 dram issue in the secondary market for, say, 4700 dram, we certainly would not pay 5000 dram to an underwriter for it \* To keep that from happening, the M U will put a STABILIZING BID into the secondary market

(32) \*\*\* Stabilizing bids are placed at or just below the P O P \* A stabilizing bid serves to set a minimum price in the secondary market so that investors see they could sell the shares purchased from underwriters back to the M U for a price at or very close to what they paid for it \* This gives the primary offering a better chance to sell out

To influence the syndicate to sell only to long-term investors, not speculators, the manager will put a **Penalty Bid Clause** into the syndicate agreement. This clause states that if the manager buys back too many shares (from speculators taking advantage of the stabilizing bid) placed by any single syndicate member, that member loses his commission on those shares and can be assessed penalty fees as well.

33

Sometimes there is a **Combined Primary and Secondary Offering**.

In such a case, the issuer is selling new shares, and officers of the company are selling some or all of the shares in the company that they already own as individuals.

34

(33) \*\* A PENALTY BID CLAUSE is a M U 's way of keeping people from overusing the stabilizing bid framework

(34) \*\* Sometimes there is a COMBINED PRIMARY AND SECONDARY OFFERING \* The company is selling new shares at the same time and through the same channels as officers or large shareholders in the company sell some of the shares they already own

CASE STUDY:  
THE  
MICROSOFT IPO  
IN 1986

**Компания “Майкрософт” была  
основана в 1975г., когда Биллу  
Гейтсу было 19 лет.**



1

**Эта история началась в 1985г.**



2

1

20

SCRIPT FOR MICROSOFT STORY ABOUT THEIR IPO IN 1986

- (1) Microsoft was founded in 1975 when Bill Gates was 19 years old
- (2) This story starts in 1985 Two competitors of Microsoft had issued shares of stock in 1983 Three other microcomputer software companies did the same in 1984 and 1985 But Gates was in no hurry to have an IPO

**“Майкрософт” не нуждался в деньгах, компания зарабатывала много денег.**



3

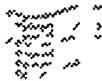
**Гейтс продавал акции по низким ценам и предлагал возможность покупки акций менеджерам и прогаммистам, чтобы переманить их в свою компании, в результате чего в 1987г. число акционеров достигло бы 500, в следствие чего возникла необходимость зарегистрироваться в Комиссии Ценных Бумаг и Бирж США.**

4

(3) Microsoft was not in need of money to expand, the company was making plenty of money. Gates didn't and doesn't care much about wealth. Gates values control of his time and his company more than personal wealth. Gates had left Harvard University after only two years to convince personal computer makers to use BASIC, the computer language that he and Paul Allen had written.

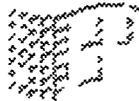
(4) However, once a company has 500 or more shareholders, it must register with the SEC in the U.S. Gates had been selling shares at low prices and offering options to buy shares to managers and programmers to entice them to work at Microsoft, so the number of shareholders would be reaching 500 during 1987, which would require that the company register with the Securities and Exchange Commission in the U.S. Once registered, the stock in effect would have a public market, but one so narrow that trading would be difficult.

**Так как в 1987г. они должны были зарегистрировать акции так или иначе, Гейтс решил приступить к этому тогда, когда они захотят, а не тогда, когда будут вынуждены. Итак, управление приняло решение продавать столько акций инвесторам, сколько будет необходимо, чтобы создать ликвидность на рынке.**



5

**В апреле 1985г. состоялась встреча между Гейтсом (29 лет), президентом "Майкрософта" Джоном Ширли (50 лет) и Дэвидом Маркардтом (37 лет), где было решено рассмотреть вопрос предложения. (Маркардт и его фирма были единственными венчурными капиталистами, делавшими вложения, когда "Майкрософт" был основан и владели 6,2% акций компании).**

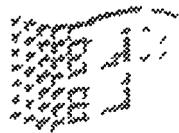


6

(5) Since they would have to register shares in 1987 anyway, Gates decided to proceed when they wanted to, not when they had to. So management decided to sell enough shares to enough investors to create a liquid market.

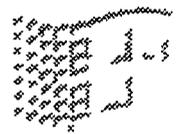
(6) In April 1985, Gates (29), Jon Shirley (48), president and C O O of Microsoft, and David Marquardt (37) had a meeting and decided to look into an offering. (Marquardt and his firm were the only venture capitalists involved when Microsoft was founded, and owned 6.2% of the stock in the company.) Gates warned that he reserved the right to call off the deal, he was more concerned about distractions the offering would cause in the company. He also was concerned about two new products the company was bringing out to the market soon.

**28 октября 1985г. Франку Годэ (50 лет) - руководителю по финансовым вопросам было поручено выбрать андеррайтеров. В своей карьере он помог трем фирмам с размещениями.**



7

**Несколько лет андеррайтеры приглядывались к “Майкрософту”, ожидая получить большие комиссионные, если будут вовлечены в андеррайтинг. Сейчас они проявили большой интерес.**



8

(7) By October 28, 1985, the day after he turned 30 years of age, a Board of Directors meeting was held, and Gates felt more comfortable with the deal, so Frank Gaudette (50), the chief financial officer, was given the job to select underwriters. He had helped with offerings for three other firms in his career.

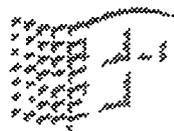
(8) Underwriters had been calling on Microsoft for years, looking for big fees they would receive if they were involved in an underwriting. Now there were more showing interest.

**В ноябре 1985г. Годэ встретился с некоторыми андеррайтерами, делая свои рекомендации Гейтсу и Ширли 21 ноября. Потом он уехал в 10-дневный отпуск. Инвестиционные банкиры обезумели.**



9

**4 декабря Годэ позвонил Эффу Мартину (37лет), V.P. с Голдманом Саксом.**

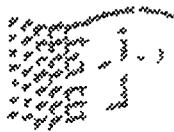


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(9) Management of Microsoft wanted to make sure that the lead underwriter chosen would be a well-known, *class* Wall Street name. Gaudette talked with and met with several underwriters in early November of 1985. He narrowed the field to eight, and then made his recommendations to Gates and Shirley on November 21. Then he went on vacation for 10 days. The investment bankers were frantic.

(10) On December 4, Gaudette phoned Eff Martin (37), a V P with Goldman Sachs, asking him and a few colleagues to have dinner in Seattle.

**11 декабря люди из Goldman Sachs были приглашены на обед в Сметл. Всего присутствовало 8 человек, 4 из которых были из компании Goldman Sachs.**



11

**14 декабря совет директоров "Майкрософта" утвердил выбор Goldman Sachs и Алекса Брауна, как совместно управляющих андеррайтеров синдиката. (В итоге всего 114 фирм стали членами синдиката).**

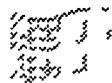


12

(11) Goldman Sachs people were invited to dinner in Seattle on December 11. A total of eight persons were there, four from Goldman Sachs.

(12) On December 14, the Microsoft board of directors approved the selection of Goldman Sachs and Alex Brown as co-managing underwriters of the syndicate. (A total of 114 firms eventually became members of the syndicate.)

**На так называемом “собрании всех рук” в “Майкрософте” 17 декабря был достигнут хороший прогресс в деле размещения. Цена была предвидена около 15 \$ (7875 драмов) за акцию. Компания должна была продать 2 миллиона акций, существующие акционеры (люди в компании) - 600.000 акций и андеррайтеры имели выбор продажи 300,000 дополнительных акций.**



13

**Следовательно около 12% акций “Майкрософта” должны были попасть в руки общественности, достаточно, чтобы создавать ликвидность на рынке, что и желала компания.**



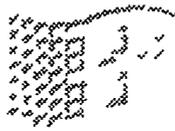
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(13) At an "all hands meeting" at Microsoft on December 17, good progress was made in moving forward with the offering. A price of around \$15 per share (7875 dram) was anticipated. The company would sell 2 million shares, existing shareholders (people in the company) would sell 600,000 shares (so this was a combined primary and secondary offering), and the underwriters had an option to sell 300,000 additional shares (the over-allotment clause or Green Shoe clause).

(14) Therefore, almost 12% of Microsoft's stock would end up in public hands, enough to create the liquid market the company wanted.

**Ширли и Гейте были обеспокоены, что размещение может помешать “Майкрософту” вести дело, особенно относительно “роуд шоу”.**

**Понадобятся ли три высших руководителя для “роуд шоу” ?**



15

**Даже до того, как “Майкрософт” подобрал своих андеррайтеров, Роберт Эшелман (32 года), юрист фирмы, где отец Гейтса был партнером, начал работать над проектом проспекта. Проспект должен был быть тщательно написан, чтобы выдержать правовые сложности относительно требований недовольных инвесторов, в случае быстрого падения рыночной цены после размещения.**



16

(15) Shirley and Gates were concerned that the offering would interfere with Microsoft's ability to conduct business, especially regarding the "road show" Would the three top officers be needed for the road show?

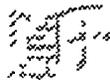
(16) Even before Microsoft had picked its underwriters, Robert Eshelman (32), a lawyer in a firm where Gates' father is a partner, had started drafting the prospectus The prospectus had to be very carefully written so that it could survive legal challenges by disgruntled investors claiming they had been misled if it turned out that the market price promptly fell after the offering

**Всего за 10 часов 8 и 9 января 1986 года андеррайтеры вели соответствующий анализ состояния компании, задавая вопросы Гейтсу, Ширли и другим менеджерам.**



17

**В конце января цена эмиссии осталась нерешенной. По сравнению с другими компаниями “Майкрософт” мог диктовать более высокую цену, чем сначала было задумано. Андеррайтеры предлагали цену порядка от 17-20 \$, однако по мнению Гейтса цена 16-19 \$ будет лучше.  
Эта исключительная цена.**



18

(17) For a total of ten hours on January 8 and 9, 1986, the underwriters conducted a due diligence examination at Microsoft, questioning Gates, Shirley, and other managers

(18) By late January, the price issue remained undecided. Compared to other software companies, Microsoft would be able to command a higher price than at first thought. The underwriters suggested a range of \$17 to \$20, Gates thought \$16 to \$19 was better. That is rare.

**3 февраля “Майкрософт” был зарегистрирован Комиссией ценных бумаг и бирж. Андеррайтеры отправили 38.000 предварительных проспектов и ожидали, не потребует ли Комиссия дополнительной информации. Только “выяснения заинтересованности” были разрешены, но не продажа.**



19

**Репитиция “роад шоу” началась 11 февраля. Гейтсу не нравился этот процесс, а Годэ наслаждался им. Спикеры должны были быть очень осторожны, говоря только то, что написано в проспекте. Публика состояла в основном из крупных институциональных инвесторов.**



20

(19) On February 3, Microsoft registered with the SEC. The underwriters sent out 38,000 Preliminary Prospectuses and waited to find out if the Commission required any additional information. Only "indications of interest" were allowed, not sales.

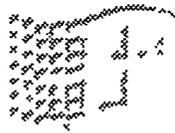
(20) Rehearsals for the road show started on February 11. Gates didn't like the process, Gaudette enjoyed it. The speakers had to be careful to not say anything different from what was in the prospectus. Road show audiences were made up mostly of big institutional investors.

**“Роуд шоу” началось 18  
февраля и в последующие 10  
дней разыгрывалось в 8 городах,  
включая два города в  
Великобритании.**



21

**Спрос на акции был велик,  
цена должна была подняться.**

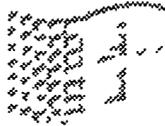


22

(21) The road show started February 18, and over the next ten days was given in eight cities, including two in Great Britain

(22) There was a lot of enthusiasm for the stock, the price would have to be raised. And more shares should be sold to help fill the demand. This might turn out to be a hot issue

**4 и 5 марта рецензент Комиссии  
обратился с комментариями.  
6 марта юристы и аудиторы  
“Майкрософта” вели переговоры с  
Комиссией об изменениях.**



23

**Компания уговорила двух  
акционеров продать  
дополнительно 295.000 акций.**

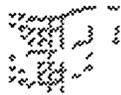


24

(23) On March 4 and 5, an SEC reviewer called with some comments. On March 6, Microsoft's lawyers and auditors negotiated changes with the SEC.

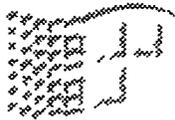
(24) The company persuaded two stockholders to sell an additional 295,000 shares.

**По результатам выяснения заинтересованности, 7 марта ожидалось, что цена одной акции будет около 25\$ в течении нескольких недель после открытия торгов, так что андеррайтерам показалось нормальным повышение цены размещения до 20-21\$. Гейтс, Ширли и Годэ решили, что 21-22\$ более разумная цена.**



25

**10 марта некоторые крупные инвесторы угрожали, что снимут свои имена как потенциальные покупатели.**

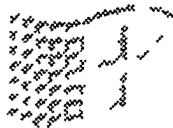


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(25) On March 7, based on the indications of interest, it was expected that the stock would trade at around \$25 per share several weeks after opening, so the underwriters felt that raising the offering price to \$20 to \$21 seemed in order. Gates, Shirley, and Gaudette decided that \$21 to \$22 made more sense.

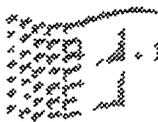
(26) On March 10, some big investors (mutual fund companies) threatened to remove their names as potential buyers because they felt that perhaps the price was getting a little too high.

**12 марта юристы и управляющие  
установили конечную цену - 21\$  
(11025 драмов).**



27

**Теперь они должны были  
решить спред.**



28

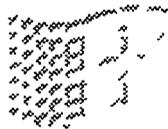
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106

(27) On March 12, lawyers and management decided on a final price of \$21 (11025 dram)

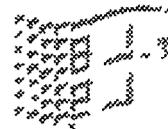
(28) Now they had to decide on the spread

**“Майкрософт” всегда имел в виду низкий спред, не более 6,5% от продаваемой цены.**



29

**Компания “Голдман Сакс” начала переговоры по цене 1.36\$ за акцию (714 драмов), “Майкрософт” - по цене 1,28 \$ (672 драмов).**

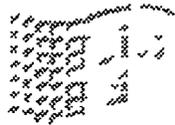


30

(29) Microsoft always had a low spread in mind, not more than 6.5% of the selling price

(30) Goldman Sachs started the negotiations at \$1.36 per share (714 dram), Microsoft started at \$1.28 (672 dram) Each penny (5.25 dram) represented \$31,000 in spread on the deal

**Они вели переговоры о цене и договорились на 1,31\$ (688 драмов).**



31

**13 марта, в 8:00 утра  
конечный пакет документов  
был отправлен в Комиссию.**



32

(31) They bargained back and forth, finally agreeing on \$1.31 (688 dram)

(32) On March 13, at 8:00 a.m., the final filing package was delivered to the SEC. This included three copies of the final prospectus and some other paperwork.

**В 9:15 утра Комиссия объявила регистрацию “Майкрософта” действительной.**



33

**2 миллиона акций плюс 600.000 плюс 295.000 плюс возможность на 300.000 дополнительные были проданы за 21\$ (11025 драмов) в считанные минуты.**



34

(33) At 9 15 a m the Commission declared that Microsoft's registration was EFFECTIVE

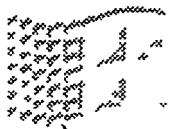
(34) Starting at 9 15 a m The 2 million shares, plus the 600,000 plus the 295,000 plus the option for an additional 300,000 were sold out in the primary market at \$21 per share in a matter of minutes This was a total of 3,195,000 shares

**В 9:35 акции впервые публично продавались по цене 25,75\$ (13519 драмов) за акцию.**



35

**В конце первого дня торгов 2.5 миллиона акций продавались из рук в руки и рыночная цена достигла 27,75\$ (14569 драмов).**



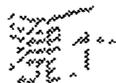
36

114

(35) At 9 35 the stock traded publicly for the first time in the secondary market (NASDAQ) at \$25 75 (13,519 dram) per share It was definitely a hot issue

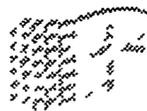
(36) By the end of the first day of trading, 2 5 million shares had traded hands, and the market price closed at \$27 75 (14,569 dram)

**Крупные институциональные инвесторы продали половину своих акций в течении последующих нескольких недель, получив большую прибыль. Следовательно, 1/3 часть размещенных “Майкрософтом” акций попала в руки частных лиц, обеспечив их ликвидность, что и являлось целью компании.**



37

**1998**



38

(37) The big institutional investors sold off about half their shares in the next few weeks, realizing excellent profits. Therefore, an estimated one-third of the Microsoft offering wound up in the hands of individuals, giving the shares the liquidity the company wanted.



CASE STUDY:  
THE  
RED OCTOBER  
OFFERING  
(RUSSIA)

Written material for the Red October case study is under development

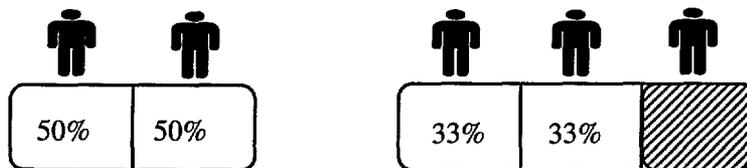
PUBLIC  
OFFERINGS

# *Public Offerings*

## *Issuance of Shares by Firm*

### ▼ Issuance of shares

- Purpose Raise capital for capital investments
- Method
  - Private placement
  - Rights offering (offers shares to existing owners)
  - Non-rights offering
- Effect Dilutes ownership and can reduce market price of shares



## *Defining Capital Needs*

▼ **Based on an analysis of the competitive and financial position of the issuer what amount of capital would be required for:**

- Developing new markets
- Investing in technology
- Shedding unproductive business segments
- Product development
- Improving existing operations
- Debt restructuring

## **Deciding among alternative methods of financing**

▼ Financing internally

▼ Bank financing

- Useful if need is too small for a public offering
- Collateral requirements
- Primarily short term loans
- High interest rates
- Bank solvency may limit availability

▼ *Bonds*

- Fixed payment obligations*
- Credit risk of issuer may be too high*
- Short maturity*
- High coupon rate*
- Interest may be tax deductible*
- Stock*
- Dilution of ownership*
- Dividends optional*
- Liquidity*

## ***Steps in the Public Offering Process***

- Defining the capital needs of the issuer
- Deciding among alternative methods of financing
- Defining a market for the securities to be issued and a marketing plan
- Selecting an underwriter or selling agent
- Agreement between issuer and underwriter or selling agent
- Appointing an auditor and preparing financial statements
- Preparation of a registration statement
- Preparation of a prospectus
- Negotiating the price at which securities will be issued
- Commencement of selling
- Clearing and settlement of purchases
- Settlement of selling group account

## ***Strategic Investor***

- Objectives of the firm
  - management know-how
  - technology
  - marketing and access to markets
  - capital
- Objectives of the investor
  - adequate return
  - access to market
  - local knowledge
  - integrate into worldwide strategy

## **Portfolio Investor**

- ▼Objective of the firm
  - Capital
- ▼Objectives of the investor
  - Good and quick return
  - Ease of exit

## ***Preparing the Registration Statement and Prospectus***

- ▼The lead broker dealer prepares the disclosure documents
- ▼What level of disclosure is required by law? What level of disclosure is expected by domestic and foreign investors?
- ▼Making resources within the issuer available to speed the collection and approval process
- ▼Filing procedures
- ▼Schedule and cost of printing
- ▼Use of the prospectus in the selling process

## ***Services of Broker Dealer***

- ▼Develops marketing plan
- ▼Helps prepare prospectus
- ▼Helps register securities
- ▼Helps get securities listed on the Exchange
- ▼Organizes a selling group
- ▼Promotes the offering to new and existing clients
- ▼Possibly makes a market after the offering is sold

## *Selecting a broker dealer*

- Any *regulatory problems*? Good relations with securities authorities?
- Does *distribution network* have capacity to reach desired market? Number and sophistication of clients?
- *Experience* selling new issues? Reputable securities and issuers? Successful at it? Good referrals?
- Attitude and *commitment* to issuer? Is this the right group to do business with?
- Value added *services* brought by the broker dealer?  
Attorneys and accountants on staff? Market maker?  
Relationships with regulators? Geographic coverage?

## *Forming a Selling Group*

- ▼ Due to the size of the issue, how many brokers are needed?
- ▼ What is the desired market coverage?
- ▼ What existing relationships are there between the lead broker and potential selling group members?
- ▼ What other firms are needed?
- ▼ What is the standard compensation arrangement?
- ▼ How does this offer vary from the standard?

## ***Defining a marketing plan for the securities***

- ▼What is the potential risk and reward of this investment?
- ▼Who are the existing and potential investors in the securities of this issuer?
- ▼How to limit risk and improve attractiveness of the issue?
- ▼Which broker dealers serve this marketplace?
- ▼Which broker dealers have the capacity and distribution network to succeed?

## ***Agreement between Issuer and Broker Dealer***

- ▼Competitive
  - Issuer publishes information about the security
  - Accepts bids for whole issue
- ▼Negotiated
  - Issuer negotiates with one broker dealer
  - Most likely in Armenia?
- ▼Firm Commitment
  - Broker deal buys the whole issue for inventory, resells it to clients
  - Broker dealer at risk if securities don't sell
- ▼Best Efforts
  - Firm acts as agent of issuer
  - Sells as much as possible Broker not at risk if securities don't sell

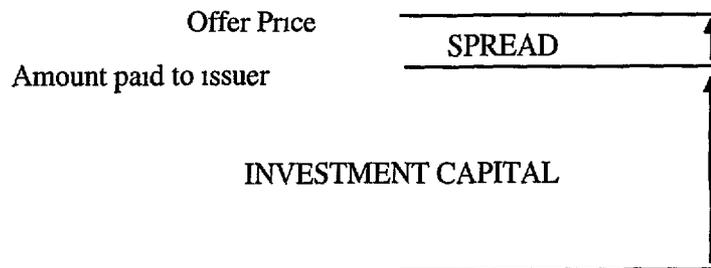
## ***Agreement between issuer and broker dealer***

- ▼ Firm commitment versus best efforts
  - Best efforts likely at this stage
- ▼ Detail of services to be provided by lead broker dealer
- ▼ Expected procedure for clearing and settling sales
- ▼ Details of plans for a selling group
- ▼ Guidelines for pricing the issue
  - Price normally fixed at the end of the registration process
- ▼ Amount of the spread

## ***Preparing for a public offering***

- ▼ Practice good shareholder relations
  - Implement sound corporate governance
  - Respect shareholder rights
- ▼ Contract a broker dealer
  - Defines market for new issue
  - Assist with registration and prospectus
  - Helps develop trading market after the offering
- ▼ Appoint independent auditor
  - Audited financial statements required for registration
- ▼ Register with State Securities Agency
- ▼ Apply for listing on Stock Exchange
- ▼ Promote the new offering

## *The Spread*



- ▼ Investors pay the "offer price"
- ▼ The issuer receives the offer price minus the spread
- ▼ The spread is compensation for the services of the broker dealer
- ▼ The issuer must also pay the expense of the audit and any attorney fees

## *Pricing the securities to be issued*

- ▼ Secondary market transaction prices
- ▼ Secondary market prices of comparable firms
- ▼ Fundamental valuation based on issuers financial statements
- ▼ Indications of interest from prospective buyers
- ▼ Comparable primary market issues

## ***Armenian Obstacles to Public Offerings***

- ▼ Companies do not believe they need to access the free capital market
- ▼ Managers fear losing control to outside shareholders
- ▼ Managers fear making disclosure because of taxes
- ▼ Undeveloped broker dealers
- ▼ Uncertainty about registration and offering procedures
- ▼ Limited trading markets
- ▼ Shareholder rights are often not respected
- ▼ Inaccurate financial statements

This is the fourth module in the Underwriting unit. A script has not been written because each slide has considerable material, a script would primarily repeat the same information. In presenting this module, we are promoting discussion among the participants since part of this is a good review of what has been covered in earlier modules.