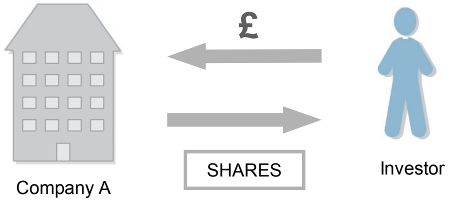
FitchLearning

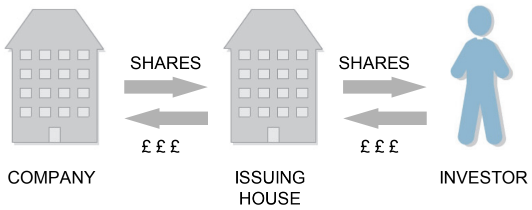
4-6 questions

2. Methods of Issuing Equity

Offer for subscription



Offer for sale by tender



Further information

An **initial public offer** (IPO) is the first sale of stock by a private company to the public.

Primary issuance – where the company brings the company to the market for the first time.

A **secondary offer** – a follow-on offer is one made by a company who has already issued shares into the markets, but wishes to raise more funds.

2. Methods of Issuing Equity

Placing

Small investors would NOT be offered shares in a placing

Institutions and wealthy individuals would be offered shares in a placing

Intermediaries offers

Further information

Introduction

An introduction is a method of listing rather than a method of issue. Shares that are already in issue and trading on a secondary market (the NYSE for example) can be introduced to another market (the LSE for example).

2. Equities: Methods of Issue

Rights issue

- Rights issue: features
  - A follow on issue of shares giving existing shareholders the right to subscribe to more shares in proportion to their existing holding
  - Mitigates the risk of diluting ownership
  - Share typically offered at a discount to current market price
- Theoretical ex-rights price
- Theoretical nil paid price

Example: A company's shares are trading at 147p. It does a 1:4 rights issue at 117p. Calculate the number of shares an investor with a 1000 share holding is entitled to, the theoretical ex-rights price and the nil paid price.

Further information

Rights issue

Rights issues are described as a ratio between new and existing shares. For example, during a 1 for 5 (1:5) rights issue, shareholders would be asked to buy one new share for every five they already hold.

Keeping on target

A company announces a 1:3 rights issue at a subscription cost of £1.56. If the cum rights price is £1.80, what is the theoretical nil paid price?

A. 6p

B. 18p

C. 24p

D. £1.74

Keeping on target

The ex rights price of share D is £26. If the share was trading at £30 before a 2:5 rights issue what was the subscription price?

A. £14

B. £15

C. £16

D. £17

2. Equities: Methods of Issue

Scrip/bonus issue

- Scrip issue: features
  - A follow on issue of shares to existing shareholders in proportion to their existing holding
  - Share issued free of charge
  - Significantly dilutes the share price
- Theoretical ex-scrip price

Example: A company's shares have a market price of £12 and a nominal value of 60p. It does an 3:1 scrip issue. Calculate the ex-scrip price and nominal value?

Keeping on target

A company announces a 1:3 scrip issue. If the cum scrip price is £1.80, what is the theoretical ex scrip price?

A. £1.35

B. £0.97

C. £1.54

D. £1.74

Keeping on target

The ex scrip price of share D is £18. If the share was trading at £30 before the scrip issue, what was the scrip ratio?

A. 1:3

B. 2:3

C. 4:1

D. 2:5

Answer to the questions on the previous slide:

B

3 shares at £1.80 = £5.40

1 share at £1.56 = £1.56

4 shares for £6.96

£6.96 / 4 shares = £1.74 (TERP)

£1.74 - £1.56 = 18p

C

5 shares at £30 = £150

7 shares at £26 = £182

£182 - £150 = 2 shares for £32

£32 / 2 = £16 per share

2. Methods of Issuing Equity

Share splits and consolidations

Example: a company's shares have a market price of £12 and a nominal value of 60p. It splits one share into four. What is the ex-split price and nominal value?

Further information

Corporate actions such as scrip issues, share splits and consolidations affect the number of shares in issue. For this reason, financial ratios, such as NAV per share and earnings per share (EPS), will need to be restated.

Answer to the questions on the previous slide:

A

3 shares at £1.80 = £5.40

1 share at £0 = £0

4 shares for £5.40

£5.40 / 4 shares = £1.35

B

3 shares at £30 = £90

2 shares at £0 = £0

£90 / 5 = £18

2. Methods of Issuing Equity

Underwriting

- Means of guaranteeing a minimum level of proceeds from a share issue
- Used in all situations where share issues are generating proceeds (‘marketing operations’)
- No limit on number of underwriters

3. Share Buy-backs

Share buy-backs

- Company buys back its own shares from the secondary market
  - Treasury shares
- Shareholder approval
  - Special resolution
- Treasury shares can be:
  - Reissued at a later date
  - Transferred to an employee share scheme
  - Cancelled
- Reasons for company buy-backs:
  - To signal undervalued shares to shareholders
  - To rationalise its capital structure
  - To substitute dividend payouts with share repurchases
  - To deploy excess cash flow and return it to shareholders
  - To increase the value of the shares