A primary equity follow-on is a corporate action allowing an existing company to issue more shares in order to raise capital. Follow-ons also come in the form of secondary shares, or shares that already exist but are coming off some sort of lockup or sale restriction. Typically, an investment bank or syndicate of banks is hired to manage the placement of the newly issued or existing shares that are changing hands. Offerings can take place “overnight” or they can be “marketed.”

Overnight offerings are more common than marketed ones for a few reasons: there may be pre-existing demand for the shares based on past indications of interest in a particular name, or reticent issuers/holders may be apprehensive about the market’s reaction to the issuance/exchange of new shares as marketed follow-ons do not preclude a stock from continuing to trade, and can often adversely affect the price of a stock, leading to a lower price for the offering.

My project will focus solely on marketed follow-ons as these corporate actions represent one of the final bastions of natural arbitrage opportunities available to investors and speculators alike. A number of factors can affect how the market reacts to news of an offering, and I will begin my project by breaking down these factors into technical, fundamental, and structural reasons. Subsequently, I will attempt to forecast how an offering will react over the course of one day, one week, and one month post-pricing.

Although I have much of the necessary data gathered and ready to use, the data set is only comprised of 1,100 offerings going back five years. I have more data going back from 2009-2014, however this data set needs a significant amount of EDA and refinement. As I truly enjoy this part of the data process, I will attempt to include this information as well, bringing the total amount of line items to about 4,000.

Despite the comparison not being perfect, I am very much looking forward to this project, as I have a track record of somewhere in the vicinity of 100mm shares traded in many of these offerings, and the prospect of comparing actual returns without a model to performance that “could have been” using a more refined and structured approach to the decision making process is very appealing.