



# An Overview of Equity Capital Markets

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# Equity Capital Markets – A Study of Stock Markets

- Financial markets increasing correlated with higher trading volumes – currencies, debt (individual/corporate/government), stocks, commodities – heavily influenced by macro factors and economic outlook
- Market movements are more a study of psychology and “animal spirits” than applied finance - cannot accurately predict market moves:
  - “If past history was all there was to the game, the richest people would be librarians.” (Warren Buffet)
  - Forecasts are generally wrong, even in FX currencies which is the most liquid and widely followed market
  - Bets against the Euro and the Sovereign debt crisis have not always performed as expected (MF Global bankruptcy in 2011 - Corzine’s bet)
  - Most recent round of QE3 (unlimited time horizon) caused a huge market rally, but not completely

# Current Market Trends – Volatility and Uncertainty

- Massive liquidity bubble caused by Quantitative Easing has driven up financial asset prices and driven down interest rates - causing major market anomalies
- Investors poured back into equities as aggressive central bank action has stoked risk appetite. Weekly inflows into equity funds hit a \$17B four-year high.
- US Fed, ECB and BoJ have all stepped up QE plans this month.
- Fed announced QE3 Sept.13 - commodities gained smartly. But then Brent crude tumbled \$4 in four minutes, and dropped another \$5.60 over two days.
- Bank of America Merrill Lynch projects QE3 will drive crude 14 per cent higher by next year, as growth in the supply of money surpasses that of oil.
- Oil's plunge showed what happens when economic theory tangles with the reality of commodities trading.
- Still a lot of uncertainty in the Euro and the major US and China markets



# Current Market Trends – Record Monetary Easing

## Central banks' balance sheets

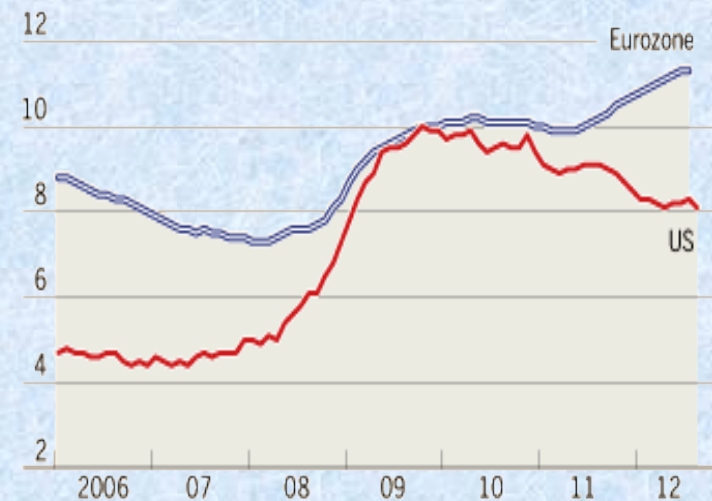
Assets rebased

(with start dates of central bank monetary programmes)



## Unemployment rates

Per cent

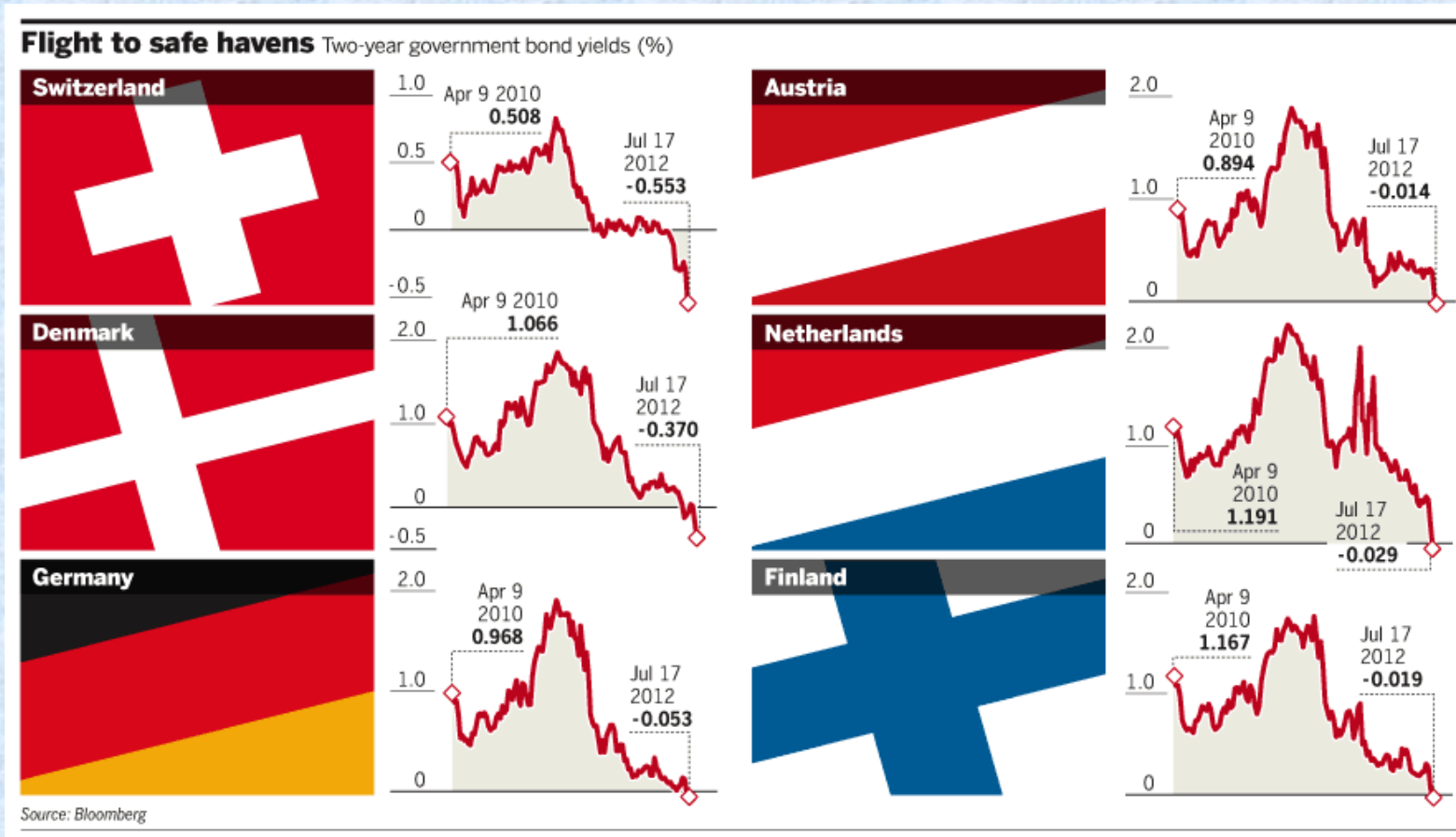


Source: Thomson Reuters Datastream

FT, September 15, 2012

- \$3.4 trillion of purchases under QE1, 2 and Twist; now QE3 with \$40 B per month - unlimited
- Europe has joined in – ECB (LTRO, mostly put back on deposit) and BoE – as well as Japan (\$127 B increase Sept. 19)
- Risk asset prices being pushed up, interest rates down to record levels
- Will this facilitate recovery? “These are largely uncharted waters” (Mario Draghi, Pres, ECB).

# Current Market Trends – Flight to Safe Havens Dropping Rates



FT, July 18, 2012

- Investors “paying” half a dozen countries for privilege of lending them money, following European Central Bank rate cuts and a flight by investors to perceived havens.
- Dislocations caused by the Euro crisis and ECB’s move to stop paying interest on deposits

# Bloomberg "WEI" Screen (World Equity Indices - 2012)

WEI  
#<Go> for Index Details

95 Settings 96 News 97 Feedback World Equity Indices

Standard Movers Volatility Ratios Futures AVAT vs 10d % Ytd CAD

	2day	Value	Net Chg	% Chg	Δ AVAT	Time	% Ytd	% YtdCur
1) Americas								
11) DOW JONES		13579.47	-17.46	-0.13%	+38.08%	09/21 c	+11.15%	+6.55%
12) S&P 500		1460.15 d	-.11	-0.01%	+31.87%	09/21 c	+16.11%	+11.30%
13) NASDAQ		3179.96	+4.00	+0.13%	+43.29%	09/21 c	+22.06%	+17.01%
14) TSX		12383.60 d	-25.65	-0.21%	+87.10%	09/21 c	+3.58%	+3.58%
15) MEX IPC		40338.70 d	-161.65	-0.40%	+95.91%	09/21 c	+8.80%	+12.62%
16) BOVESPA		61320.07	-367.90	-0.60%	-27.19%	09/21 c	+8.05%	-6.11%
2) EMEA								
21) Euro Stoxx		2550.82 d	-26.26	-1.02%	-39.57%	10:44	+10.11%	+5.08%
22) FTSE 100		5821.73 d	-30.89	-0.53%	-37.92%	10:44	+4.48%	+4.66%
23) CAC 40		3491.20 d	-39.52	-1.12%	-36.14%	10:44	+10.49%	+5.44%
24) DAX		7406.27 d	-45.35	-0.61%	-15.15%	10:44	+25.57%	+19.82%
25) IBEX 35		8103.40 d	-127.30	-1.55%	-28.29%	10:44	-5.40%	-9.73%
26) FTSE MIB		15758.19 d	-232.91	-1.46%	-42.22%	10:44	+4.43%	-0.35%
27) AEX		331.07 d	-3.08	-0.92%	-14.70%	10:44	+5.95%	+1.11%
28) OMX STKH30		1093.63	-6.26	-0.57%	-12.73%	10:59	+10.71%	+11.04%
29) SWISS MKT		6585.14 d	-20.68	-0.31%	-26.19%	10:44	+10.93%	+6.46%
3) Asia/Pacific								
31) NIKKEI		9069.29 d	-40.71	-0.45%	-20.62%	07:28 c	+7.26%	+1.21%
32) HANG SENG		20694.70 d	-40.24	-0.19%	-46.43%	09:01 c	+12.26%	+7.83%
33) ASX 200		4385.47	-22.82	-0.52%	-26.59%	07:20 c	+8.11%	+5.63%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7300 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.  
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- Global markets have performed well 2012 – helped by QE
- US markets up double digit, esp. Tech heavy Nasdaq (Apple push)
- Europe also strong, crisis under control
- Asia solid
- Canada market lagging, as is C\$

# Bloomberg "TOP" News Screen – Leading Market News

<HELP> for explanation.

<New Search> 97) Actions 98) Settings 99) Feedback News

Topics « Worldwide Top Popular All

Worldwide Business »

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- 1) Germany Losing Patience With Spain as EU Warns Crisis Measures Are Fading
- 2) Stocks Drop With Commodities on European Crisis Discord, Global Slowdown
- 3) ✓ Apple iPhone Misses Analysts' Estimates as 5 Million Sold in First Weekend
- 4) Consumer Optimism Advancing With Stocks Boosts Obama's Prospects: Econo...
- 5) ✓ RBS Boosts Job Cuts by 300 at Investment Bank as Unprofitable Units Sold
- 6) TiVo Gains After Verizon Agrees to Pay \$250.4 Million in Patent Settlement
- 7) Monti Should Seek Italian Bailout to Straitjacket Successors: Euro Credit
- 8) GE Prepares for Mining Purchases With New Unit Copying Energy M&A Strategy
- 9) MetLife Gains After Insurer Bypasses FDIC for Banking Exit: New York Mover
- 10) Sprint CEO Hesse Sees 2014 Rebound After Outperforming Apple Shares: Tech
- 11) Commodity Bulls Keep Buying Oil as Futures Prices Decline: Energy Markets
- 12) Australia Dollar Debacle Signaling China Hard Landing as Iron Market Melts

General »

- 13) Ahmadinejad Makes Final UN Appearance With Iran Under Siege From Sanctions
- 14) Escalating Money Arms Race Shifts Terrain of Romney Campaign Against Obama
- 15) Princeton Replaces Tilghman as Ivy League Searches New Generation for Top
- 16) Clegg Rekindles Differences With Cameron in Call to Raise Taxes for Rich
- 17) England's Terry Quits International Soccer on Eve of Racial-Abuse Hearing

Bloomberg View »

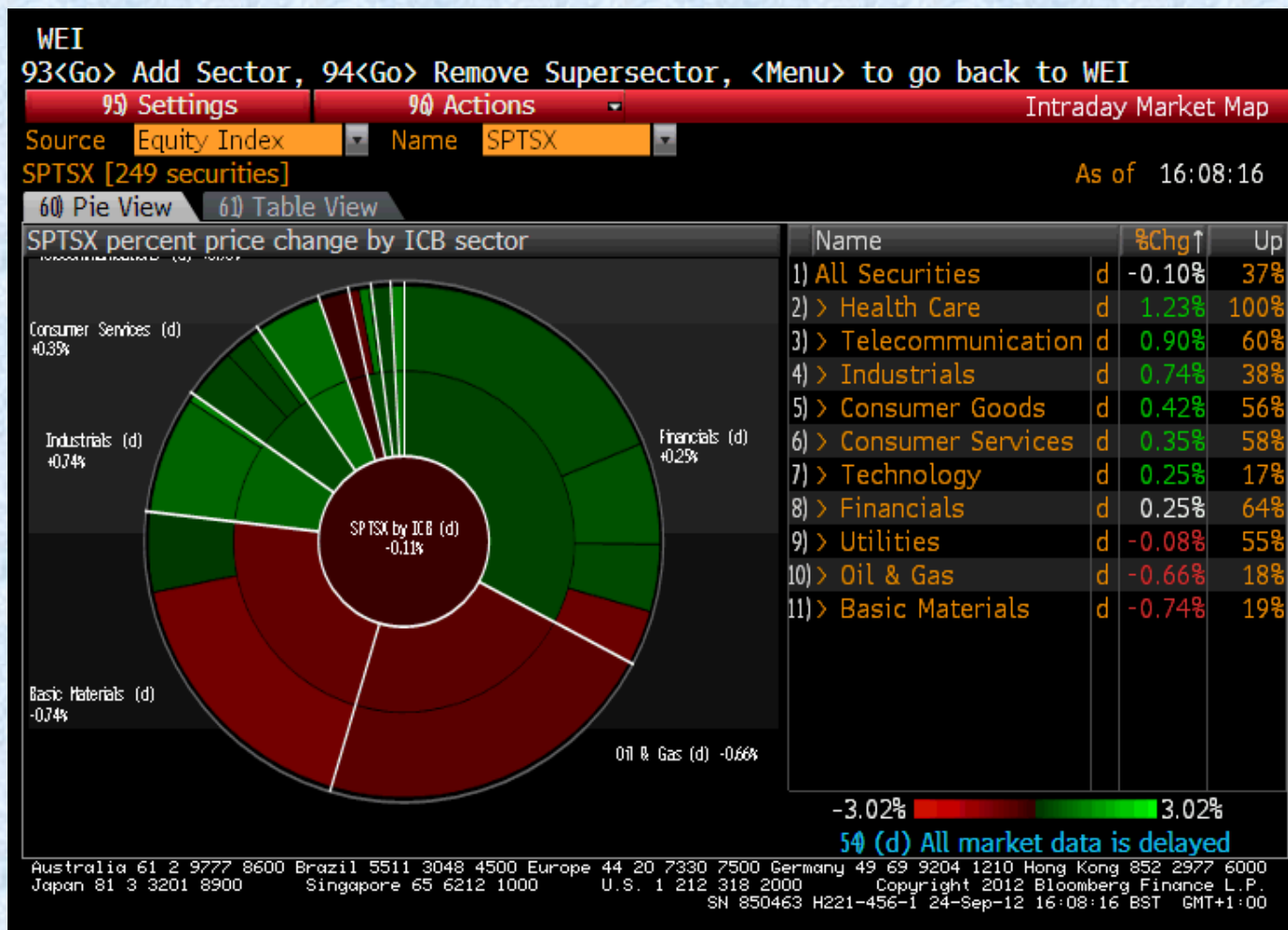
- 18) Romney Won't Lower Americans' Taxes: Commentary by Stevenson and Wolfers

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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.  
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# Composition of the Canadian Index – Banks & Resources

Change in the S&P/TSX Index by sector on Sept. 24, 2012 (green is good!)



Financials	30.6%
Oil & Gas	25.1%
Basic Mats.	20.6%
Industrials	6.4%
Cons. Servs.	5.5%
Telecoms.	5.1%
Utilities	2.4%
Cons. Goods	2.0%
Technology	1.6%
Health Care	1.2%



# Canada S&P/TSX Index 2012



# Roller Coaster Ride for Equities – Canada TSX Index Since 2000



- Mauling 2000-2002 with tech bubble burst
- Performed well until 2007
- Horrendous fall as credit bubble burst
- Clawed back a strong recovery
- Followed by a global selloff 2011
- And 2012 recovery
- Outlook?

# Volatility Index (VIX) – US Stock Market “Fear Gauge”



- VIX spiked at 90 during the 2008 Lehman bankruptcy/credit crisis
- Spiked to half this level in 2010 and again during Q3/11, but has now declined to historic low levels
- But has now declined to historic low levels



# Credit Crisis: Lehman Brothers - Largest US Bankruptcy



- \$37B to zero in 9 months; with a \$4B equity offering done June 9 (@\$28)
- B of A looked to purchase LEH, but approached by Merrill following key Sept. 12 FED meeting
- *Recommended: "Too Big to Fail", "A Colossal Failure of Common Sense" and "The Big Short"*

# Lehman Jumbo Share Issue – 3 Months Prior

- Rapid Monday morning institutional offering solo underwriting by Lehman Brothers – diluting existing shareholders 20.5% (priced at a 13.2% discount to Friday close)
- Offering not fully placed - price stayed below \$28 on high volume, then went to zero

<b>Lehman Brothers Holdings Inc (US) (LEH;NYSE)</b>			
<b>Deal Type - Follow-On</b>			
<b>Priced Monday, 09 Jun 2008 at US\$28.00 for US\$4,004.0m (EUR2,536.9m)</b>			
<b>Deal Summary</b>			
Deal Type:	Follow-On	Total Value \$ (m):	4,004
Deal Sub-Type:	FO-ABB	Deal Value \$ (m):	4,004
Instrument Type:	Common Stock	Deal Currency:	US dollar
Deal Execution:	Accelerated Bookbuild	Offer Price (deal currency):	US\$28.00
		Disclosed Gross Fees \$ (m):	120.120
		Disclosed Gross Spread %:	3.000
		Syndicated(Y/N):	No
		# Total Banks Involved:	1
		# Bookrunners:	1
<b>Lead Manager</b>		<b>Participation(Shares)</b>	
<a href="#">Lehman Brothers North America (Bookrunner)</a>		143,000,000	
<b>Deal Gross Spread</b>			
Disclosed Fees		\$120,120,000	
Disclosed Gross Spread %		3.000	
<b>Filing Information</b>			
Last Trade Before Announcement		\$32.29	
Dilution %		20.53	
Market Cap @ Offer(\$m)		\$22,494	
Shares Outstanding(m)		696.65	

Source: Dealogic. Also available in Bloomberg under corporate actions (CACs)

# Overview of Equity Capital Markets (“ECM”)

- ECM sits between Investment Banking and Institutional Equities; responsible for raising equity capital through the placement of shares
- Advise issuers on market conditions and oversee overall offering process
- New Issue activity impacted by market tone and outlook, has been tough but currently good
- Starts with an understanding of current market conditions and outlook when assessing demand for a potential share offering
- IPO activity the first to suffer during weak markets; investors reduce risk appetite so prefer seasoned issuers before making new investments
- Issuers and selling shareholders increasingly turning to independent advisors to help them navigate the new issue process (eg. STJ Advisors)



# Facebook IPO: Ominous Backdrop to Pricing

NASDAQ Index May 24-28, 2012



➤ World's largest tech IPO – 33 bank syndicate to raise \$16 billion

➤ Morgan Stanley had tight control deal (33 bank syndicate):

MS	38.5%
JPM	20.0%
Goldman	15.5%
Next 30 (avg.)	0.9%

➤ # shares and price range increased very late

➤ Priced at top end of range despite US market down 5% on week

# Facebook: World's Largest Tech IPO – First 2 Days



- Open delayed as Nasdaq cannot handle order volume
- Shares spike to \$45, but then
- Quickly drop back to \$38 support price (\$2.4 billion “green shoe”)
- 580 mm shares trade first day, 140% of total offer size
- Price dropped Monday
- Closed off 11%

# Facebook: Biggest Post - IPO Loss in History



- After initial spike & drop, shares traded in \$31 - \$33 range, well below IPO
- Further big drops, as low as \$17.55
- Has since recovered but still down 42%
- Market cap has dropped \$40 billion from IPO



# Facebook: Volatile Trading Record

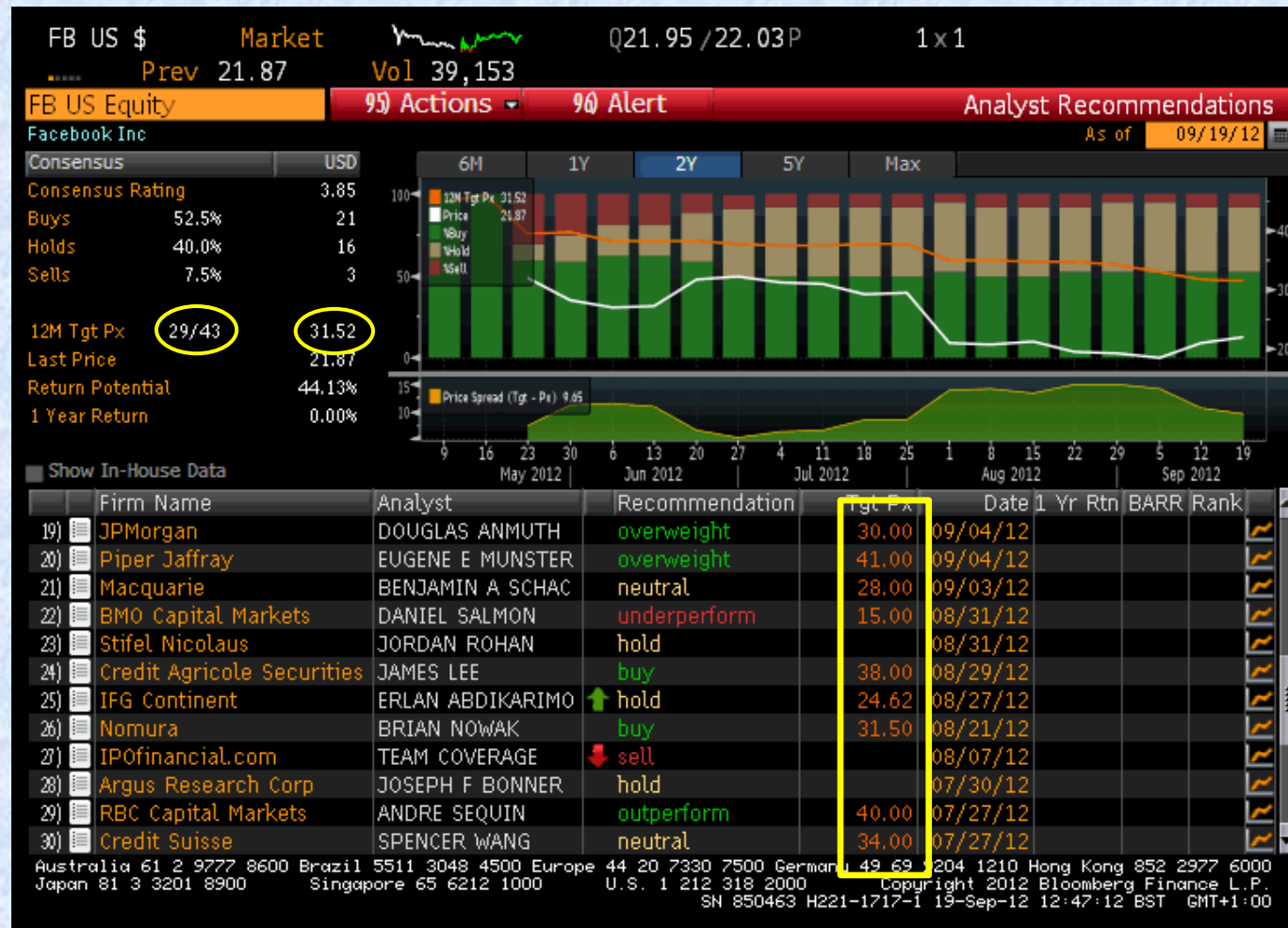


➤ 31-day chart shows how much this stock price moves

➤ Dropped 6.3% during first hour of trading on Monday

➤ \$3.45 billion loss in value

# Analyst Coverage of Facebook (Bloomberg ANR)



- Widely followed by 43 analysts, average target price of \$31.52 vs. \$38.00 IPO price (JPM \$30)
- Stock charts and research outlook are great background for a job interview

# Global Equity Capital Markets - New Issue Activity

## Global – Total ECM Volume 2012

Country	Deal Value (\$m)	IPO Volume
United States	\$177,814.08	
China	54,600.24	
<b>Canada</b>	<b>23,453.66</b>	
Japan	19,961.12	
Germany	13,562.67	
United Kingdom	13,445.23	
Hong Kong	12,262.63	
Italy	12,206.66	
Australia	11,129.37	
Malaysia	8,634.68	
India	8,019.57	
France	7,967.15	
Taiwan	5,693.34	
Switzerland	5,472.29	
South Korea	5,442.25	
<b>Total</b>	<b>\$437,755.03</b>	<b>\$81,379</b>
<b>Total - 2011</b>	<b>\$516,262.12</b>	<b>\$138,851</b>

Source: Dealogic

- Global new issue volume down 15.2% YTD, after a 30% fall last year
- IPO volume down 41.4% despite record Facebook offering
- US remains the largest market – and Canada ranks 3<sup>rd</sup> globally



# Canada Equity Capital Markets - New Issue Activity

## Top 15 Bookrunners

#	Bookrunner	Deal Value (\$mil)	No.	%share
1	Scotiabank	\$4,921.13	29	20.98
2	RBC Capital Markets	3,204.31	41	13.66
3	TD Securities Inc	2,807.10	30	11.97
4	BMO Capital Markets	2,621.76	29	11.18
5	CIBC World Markets	2,061.10	29	8.79
6	National Bank Financial	1,186.00	31	5.06
7	Canaccord Genuity Corp	822.79	31	3.51
8	GMP Capital Inc	465.5	17	1.98
9	Cormark Securities Inc	413.22	20	1.76
10	Raymond James	404.45	14	1.72
11	Morgan Stanley	329.64	2	1.41
12	JPMorgan	327.1	3	1.39
13	Pareto AS	326	1	1.39
14	Deutsche Bank	266.19	2	1.13
15	Casimir Capital LP	236.95	8	1.01
	<b>Canada Subtotal</b>	<b>\$20,393.24</b>	<b>197</b>	<b>86.95</b>
	<b>Canada Total</b>	<b>\$23,453.66</b>	<b>308</b>	<b>100</b>

Source: Dealogic

- New issue volume down 19% but still world #3 at \$23.5 B (large fee pool – near 4%)
- Oil & Gas sector 26% of total, then Real Estate 1.7% and Finance 16.4% (BNS offerings re \$3.1 B purchase of ING Bank; also helped Scotiabank standings)
- IPO volume way down; follow-on offerings now 95% of total (already listed companies)

# The STJ Advantage: Best Team, Best Technology



Team of seasoned global ECM professionals

Objective advice - no conflicts of interest

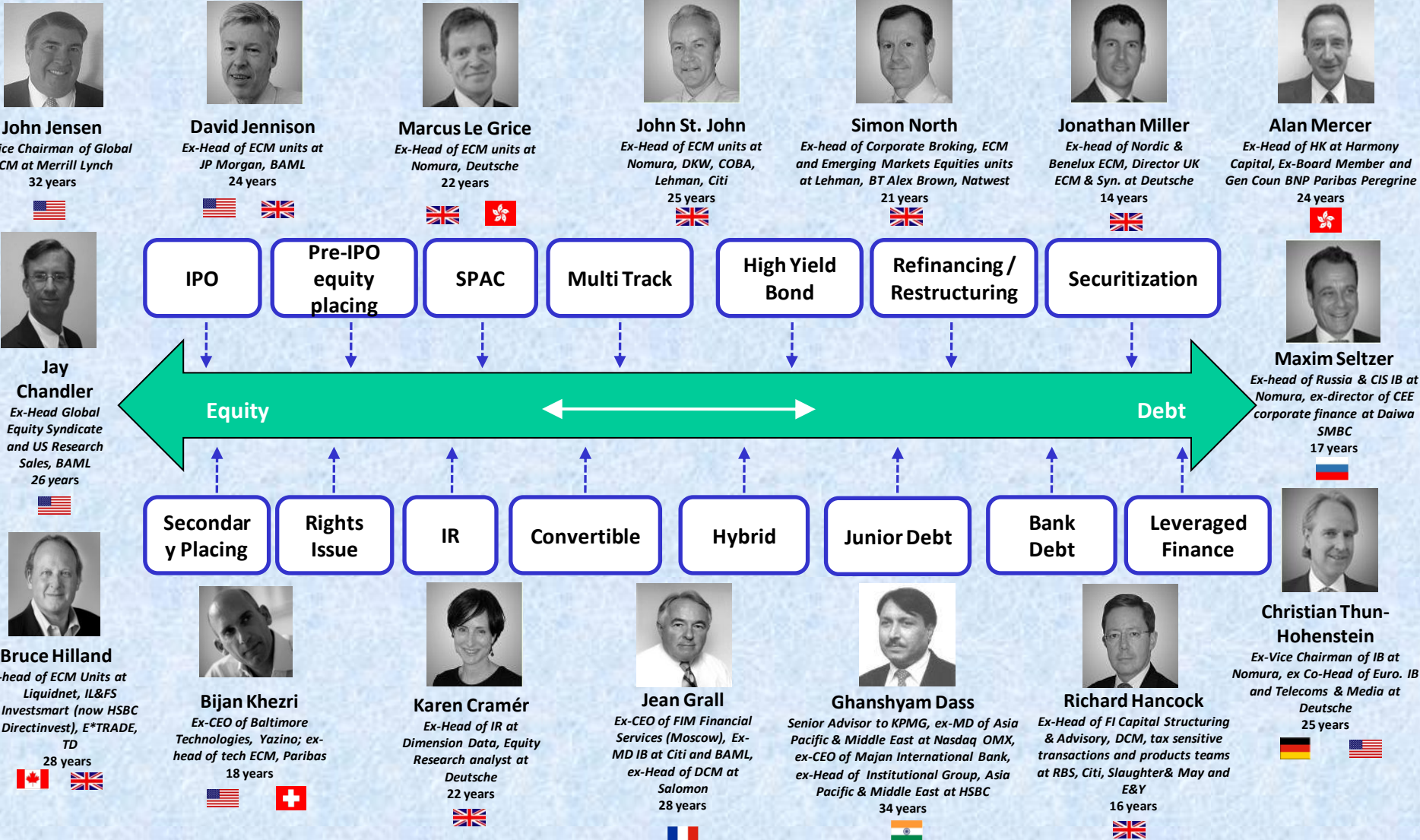
Transformational technology - proven data-driven process

Proven record of success



**Result: STJ Advisors will optimize your capital markets' transaction**

# The STJ Team: New York, London, Paris, Frankfurt, Hong Kong and Singapore





# Closing Remarks

- **Follow the markets!** Financial theory is just that - it forms the foundation for analyzing the stock market BUT markets are extremely dynamic complex environments which often trade against expectations or theory
- If not already invested in shares, consider setting up an online account and buying some – get some first hand investment and market experience
- Become proficient on market databases (such as Bloomberg); always start any company approach or analysis with a stock chart - especially before an interview – find out what is happening and why!
- Follow relevant websites – FT an excellent source for global business news (“Lex” column provides good insights) – you are spoiled for choice
- Job market increasingly competitive – stand out by being market savvy and by applying what you have learned to real world situations/markets