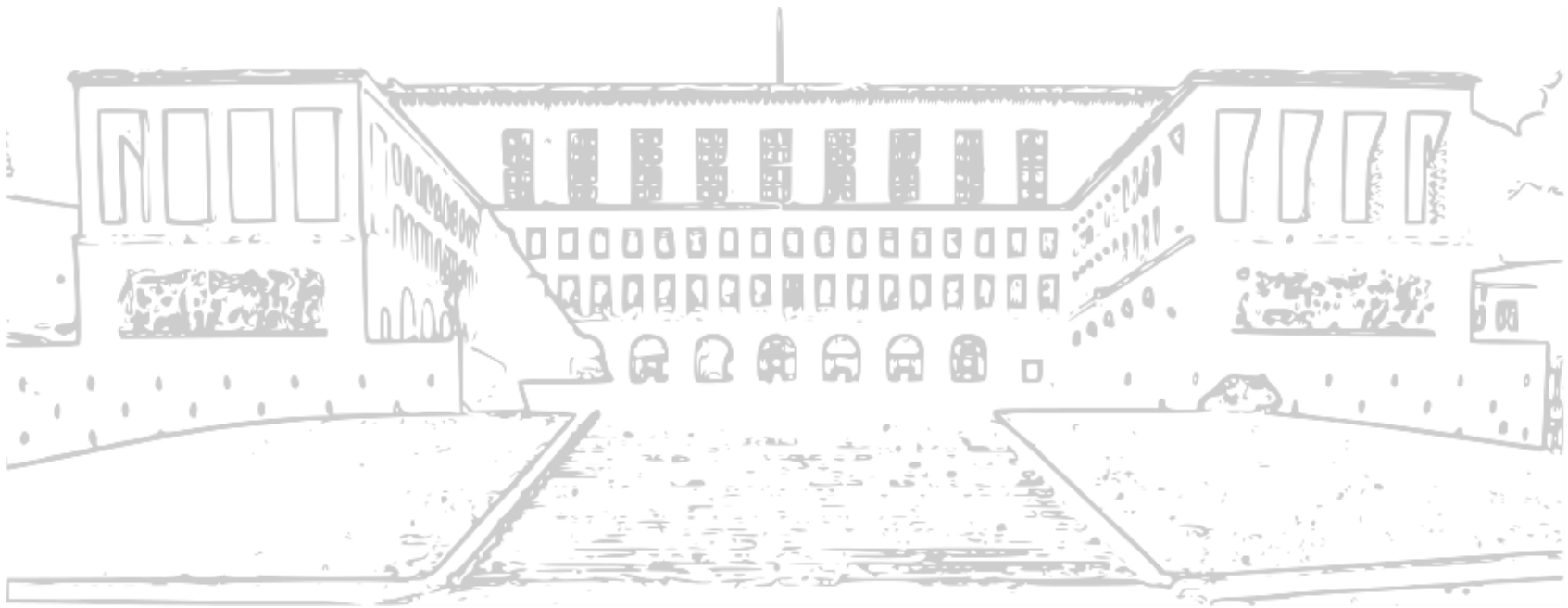


FINANCIAL MARKETS AND INSTITUTIONS

THE SECURITIES' INDUSTRY AND OTHER INTERMEDIARIES

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AGENDA



- Investment banks
- Brokers and dealers
- Private equity and venture capital
- Other intermediaries
- Mutuality in finance

INVESTMENT BANKS

- Instead of deposits+loans: **fundraising** and **advice on its issues**
- Income mainly **fee-based** (eventually also gains from **trading**)



- Main products/services:
 - **Advice, design, underwriting, servicing, private placement, due diligence** on financial instruments and for M&A/buyouts
 - **Trading, asset management, merchant banking, brokering** for HNWI
 - **market research**
- Several **conflicts of interest** and history of **excessive risk-taking**

BROKERS AND DEALERS

Brokers:

- Servicing **investors** by matching buyers and sellers:
fee-based income
- Simple orders (market, max/min), or also stop-loss and short-selling strategies
- Eventually, margin credit and accounts with settlement services
- Also market research and continuous advice (full-service)



Dealers (and market makers):

- **own inventory** of securities
- **add liquidity** to illiquid assets (f.i. small volumes)
- **continuously offer bid/ask** opportunities for investors
- compensated by **spreads**



PRIVATE EQUITY AND VENTURE CAPITAL

- **Limited partnerships** of HNWI buying **equity**: long term, high risk/return
- Provide **expertise, network, monitoring**
- **Exit strategy**: IPOs and M&As
- **Venture capital**:
 - Supply funds to start-ups with growth potential but limited access to traditional markets
 - Usually specialised by stage (seed, early-stage, later-stage investing) and segment (f.i. biotech, IT, ...)
- **Private equity**:
 - buy troubled public companies to delist them (“private”)
 - regulatory burden relieved, new management, return to profitability
 - more capital absorbed, but more collateral available



MUTUALITY AND FINANCE

- Issue: limited supply for funding a **large number of small operations**
- Different models:
 - Originally: urban (Schulze-Delitzsch, Luzzatti) and rural (Raiffeisen, Wollemborg) **credit unions**
 - Today: **cooperative banks**, but also **Islamic finance** and **microfinance**
- **Undistributable profits, maximum share ownership** and **headcount voting**: agency issues, lower efficiency, smaller scale
- Some conflicts of interest with politics and “relaxed” regulation (f.i. 1980’s S&L US)
- Today very close to non-mutuals (products, supervision, ...), yet tax advantages
- Not only banking: MGCI offer **guarantees** to access bank loans



FINANCE COMPANIES

- **Specialised** in customers (f.i. consumers) or products (f.i. leasing), often **captives**
- Funds from **money markets** (no deposits), **equity** and **bonds**
- Assets with **higher credit risk**, **fewer regulatory constraints**
- Main institutions:



- **factoring**: discounting receivables to secure the loan, with or without recourse, additional services (scrutiny of debtors, collection, ...)
- **leasing**: equipment/real estate is bought and leased providing collateral
- (revolving) **floor plan loans**: credit is granted on inventories of assets with titles, securing the loan through individual liens

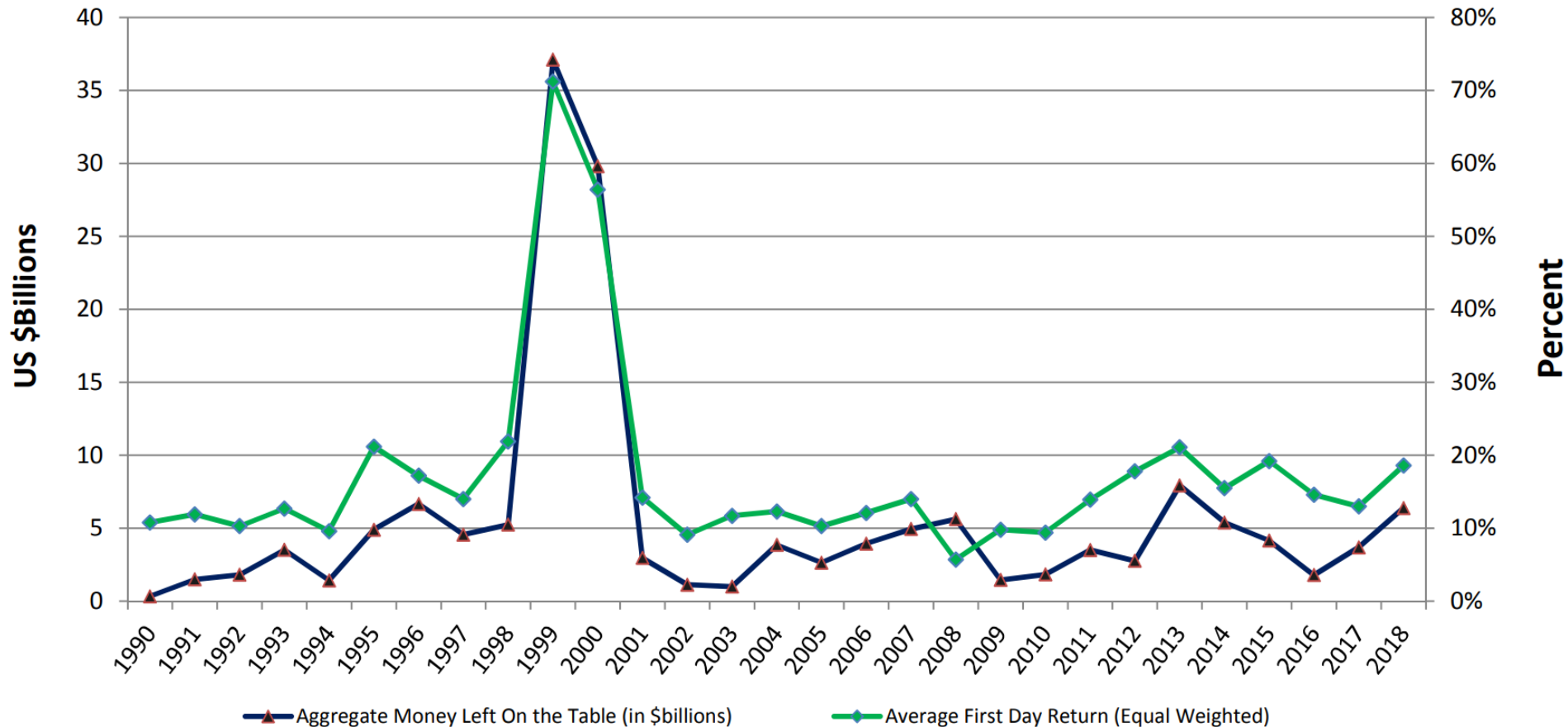


- **consumer finance** companies:
 - on specific goods (furniture, TVs, ...), home re-structuring/financing
 - usually hosted by retailers (or captives)
 - some target bad borrowers

EXAMPLES

1. Some interesting statistics on IPOs [US data, Ritter J.R., University of Florida]

Average First Day Return and Aggregate Money Left On the Table, 1990-2018

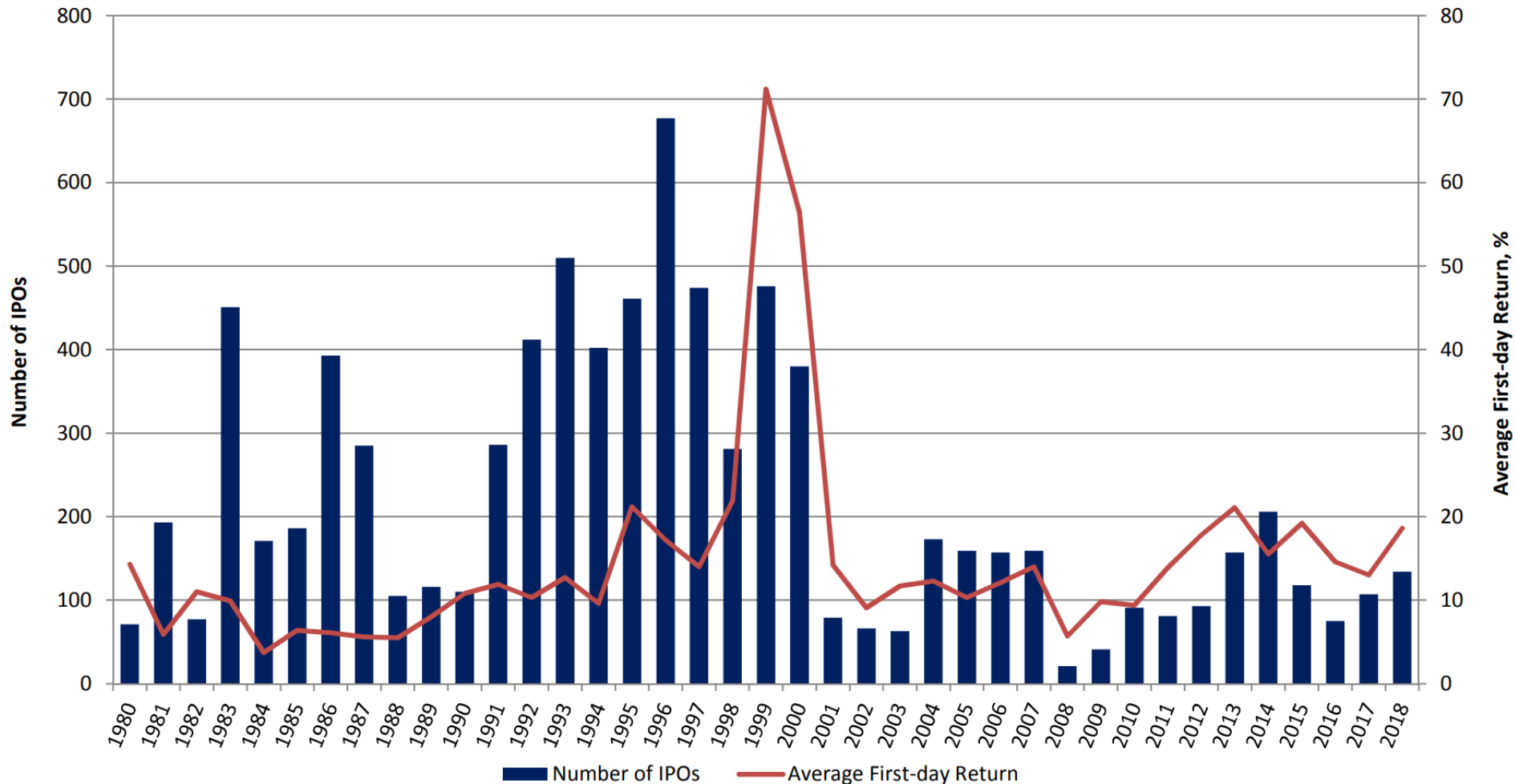


(MLOTT: closing 1st say price *minus* offer price)

EXAMPLES

2. Some interesting statistics on IPOs [US data, Ritter J.R., University of Florida]

Number of U.S. Offerings and Average First-day Return, 1980-2018



EXAMPLES

3. Some interesting statistics on IPOs [US data, Ritter J.R., University of Florida]

Price setting issues (closing price compared to offer price)

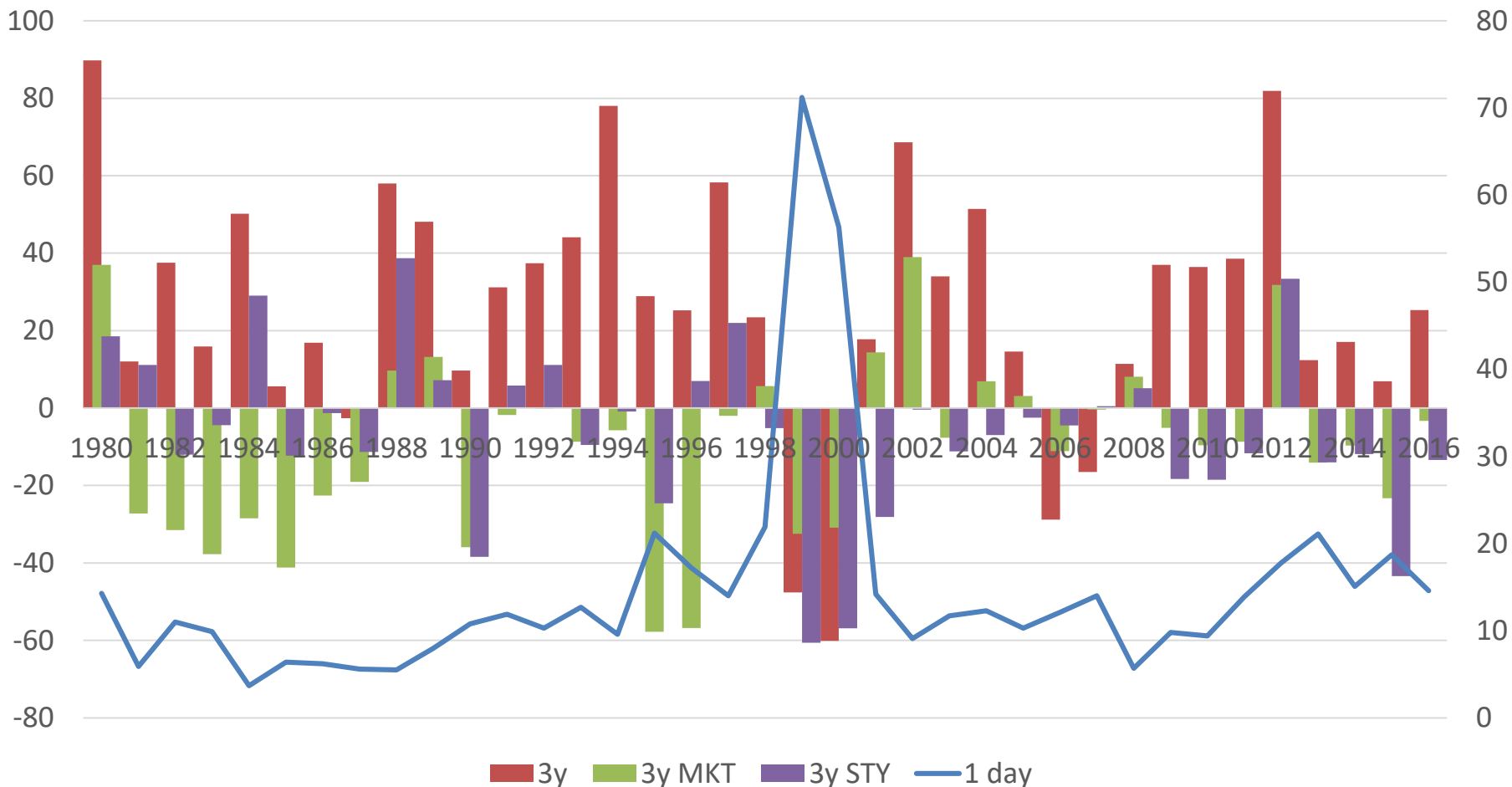


... but in 1999-2000 returns for “below” were 8% versus 122% of the “above”

EXAMPLES

4. Some interesting statistics on IPOs [US data, Ritter J.R., University of Florida]

1 day vs 3 year performance

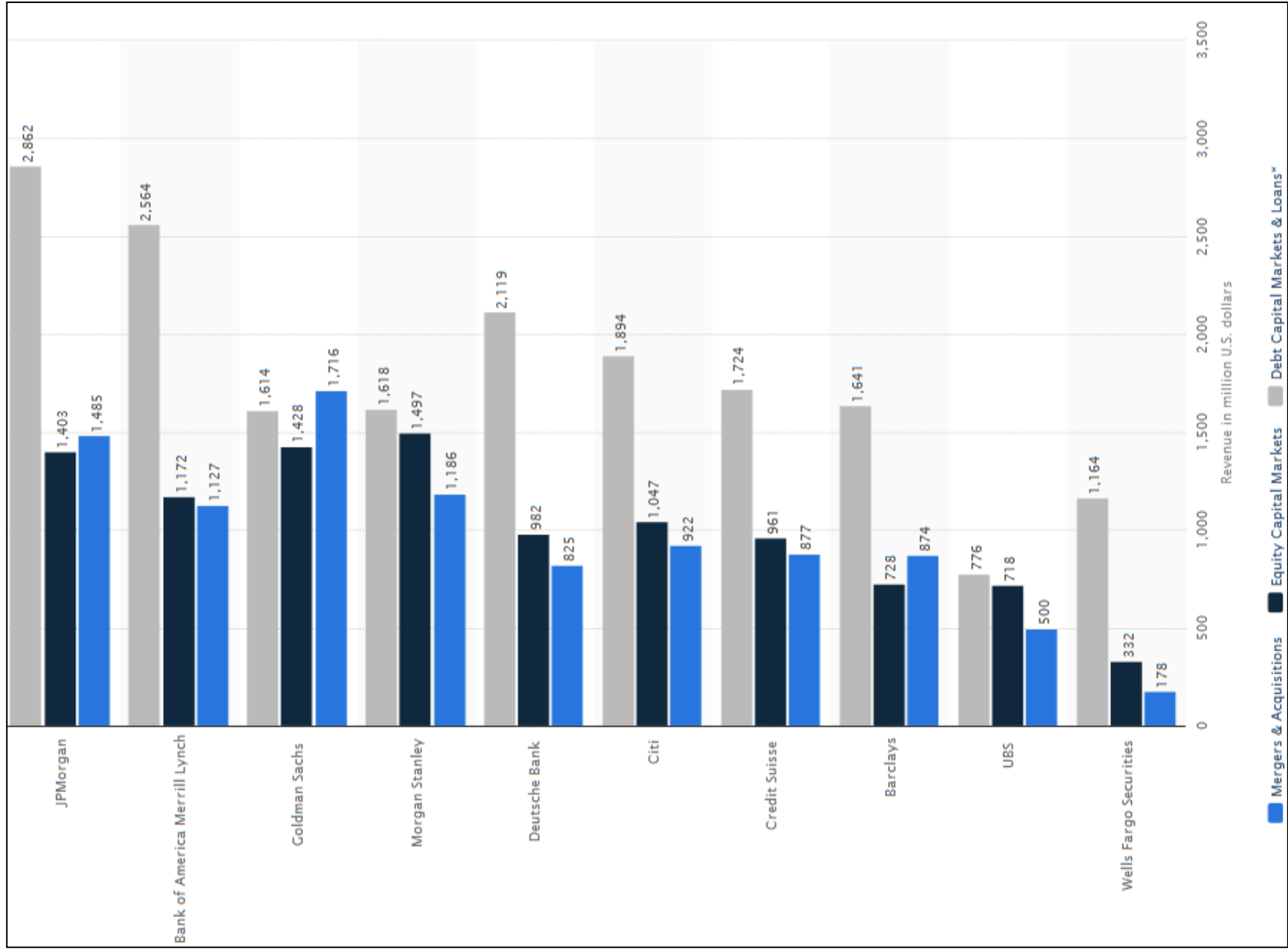


1980-2016: 1day 17.9%, 3y 21.9%, 3y MKT -18.4%, 3y STY -7.6%

2001-2016: 1day 14.0%, 3y 20.8%, 3y MKT -1.6%, 3y STY -9.4%

EXAMPLES

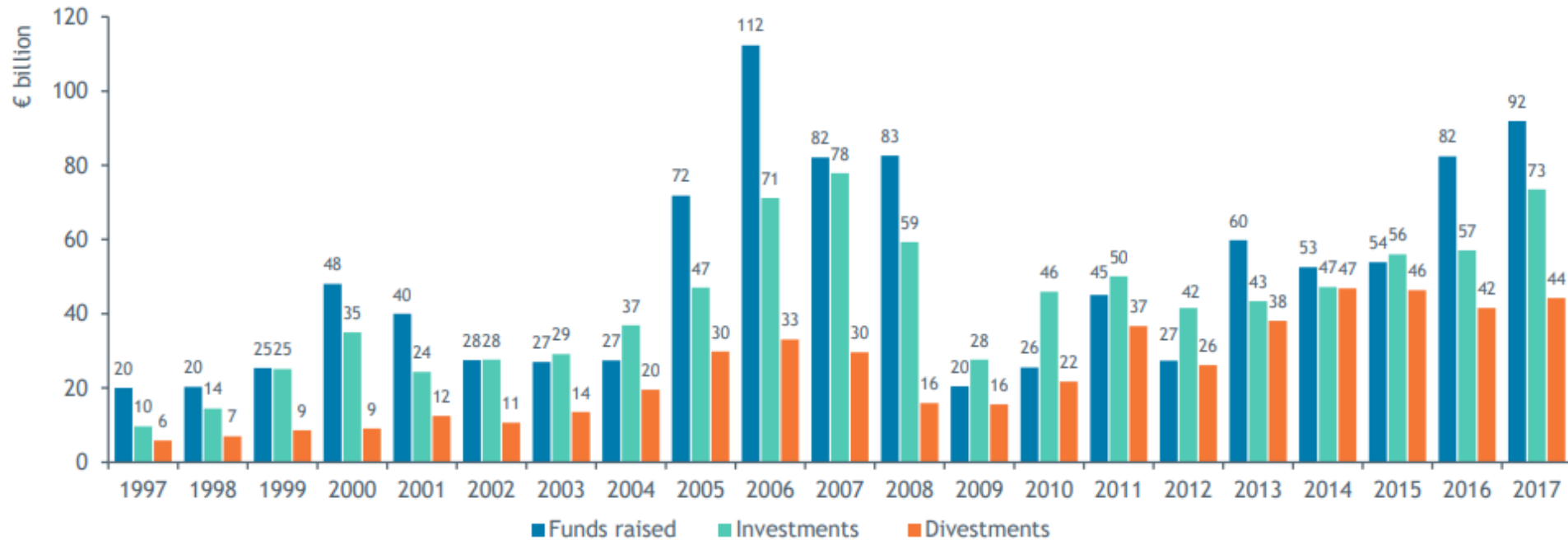
5. Top 10 investment banks by M&A fees and geographical distribution of revenues [statista.com, 2014]



EXAMPLES

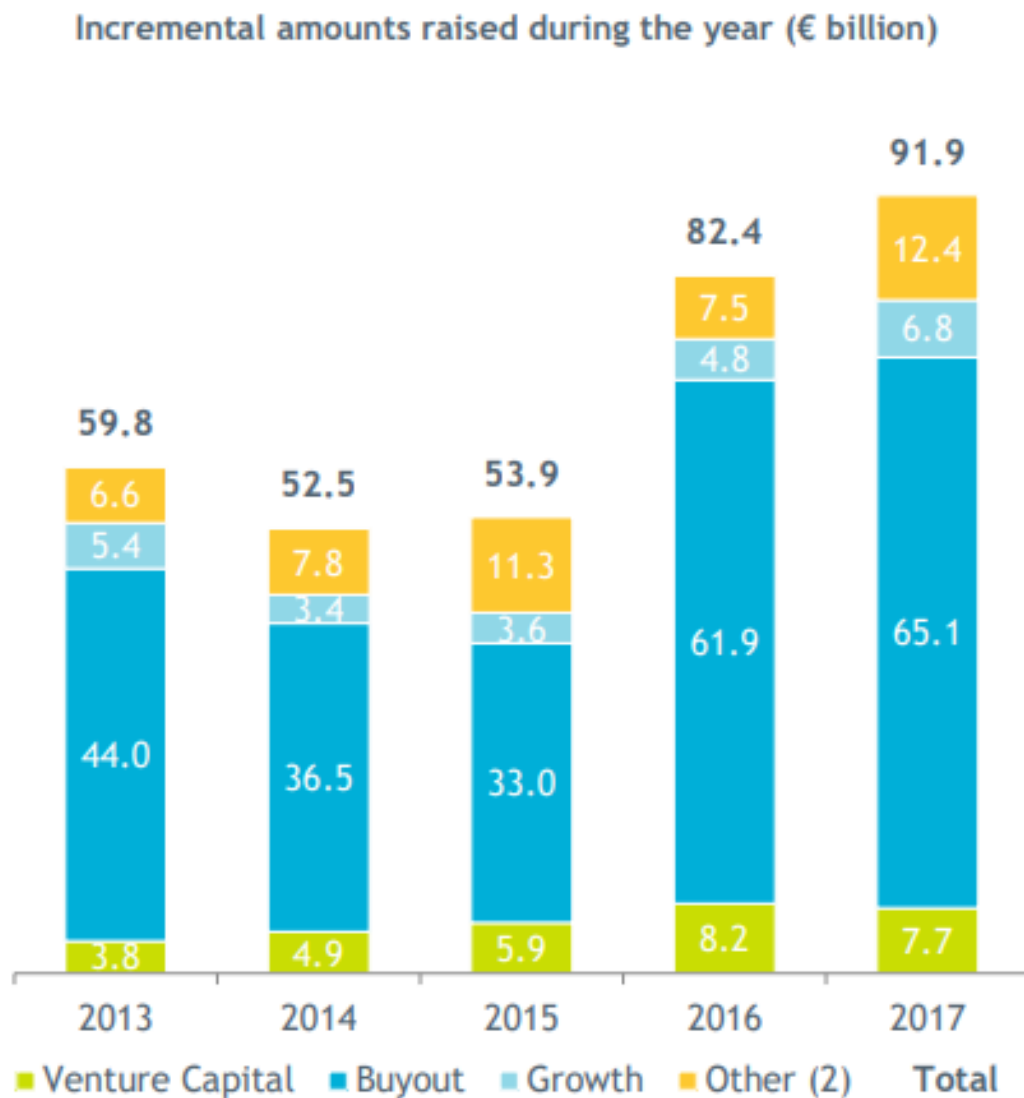
6. European Private Equity and Venture Capital figures [EVCA.eu]

Flows



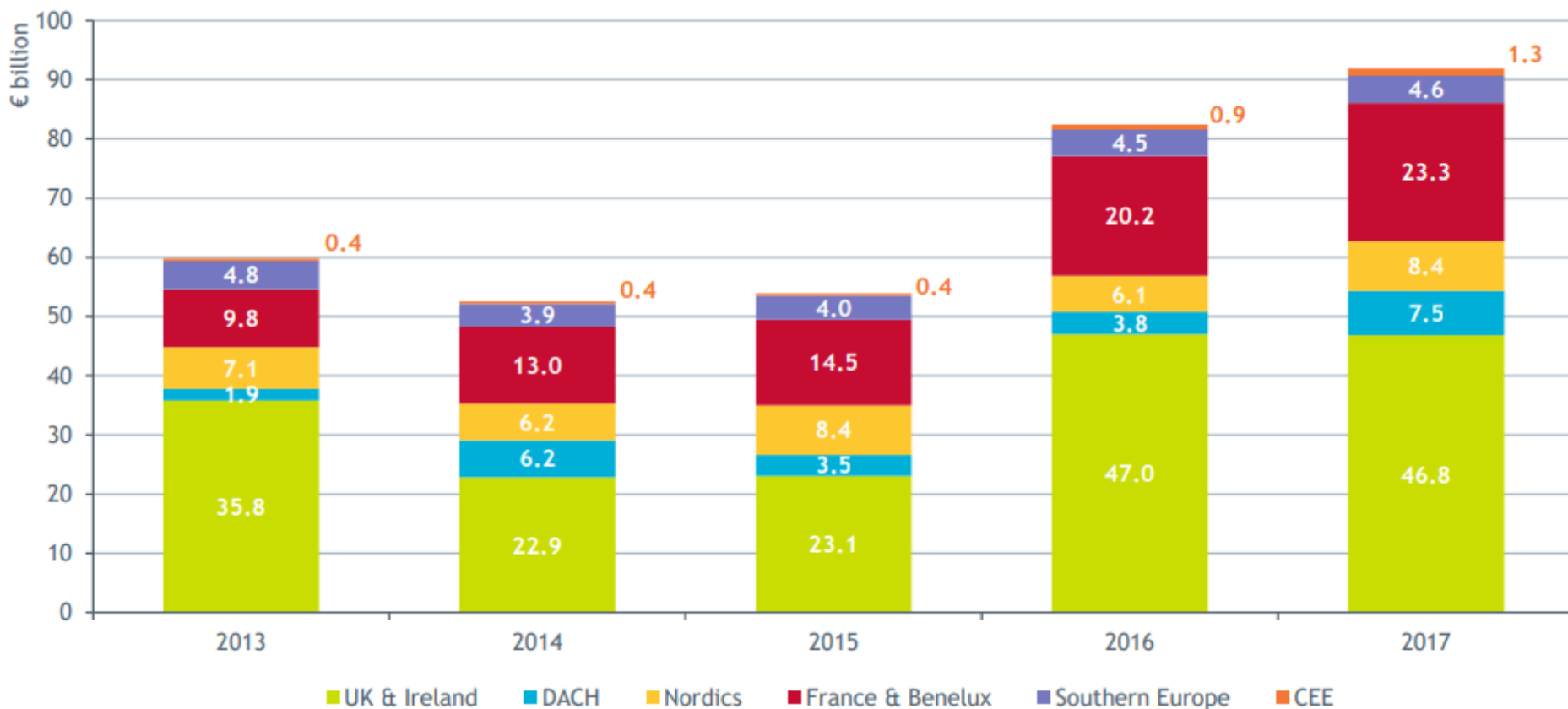
EXAMPLES

7. European Private Equity and Venture Capital figures [EVCA.eu]



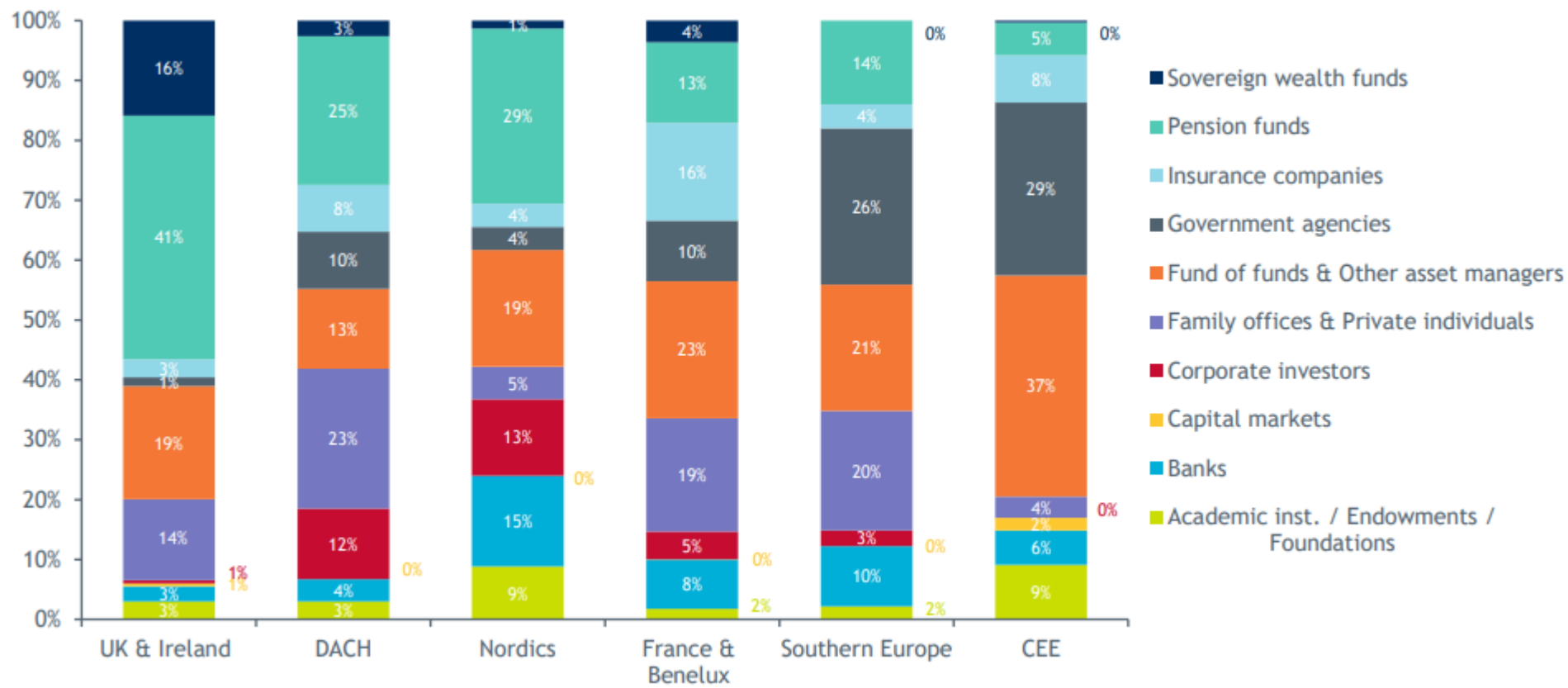
EXAMPLES

8. European Private Equity and Venture Capital figures [EVCA.eu]



EXAMPLES

9. European Private Equity and Venture Capital figures [EVCA.eu]



EXAMPLES

10. European Private Equity and Venture Capital figures [EVCA.eu]

By type of investor

