

B14. THE SECURITIES' INDUSTRY

FINANCIAL MARKETS AND INSTITUTIONS

A.A. 2022/23

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TOPICS



- INVESTMENT BANKS
- BROKERS AND DEALERS
- PRIVATE EQUITY AND VENTURE CAPITAL

INVESTMENT BANKS

- XIX century: fundraising in EU through stocks for infrastructures in the US (railways, steel, ...)
- 1929-1999: Glass-Steagall Act → separation from commercial banking (in Italy, f.i. banking laws in 1920s-30s required specialization, up to 1993's new EU-driven law)
- GFC: bailouts and defaults due to conflicts of interests and excessive risk-taking
- «End» of business model of «pure» investment banks in the US: M&A and extension of more stable retail commercial banking and increasing weight of EU-based investment/universal banks



BANCHE D'AFFARI

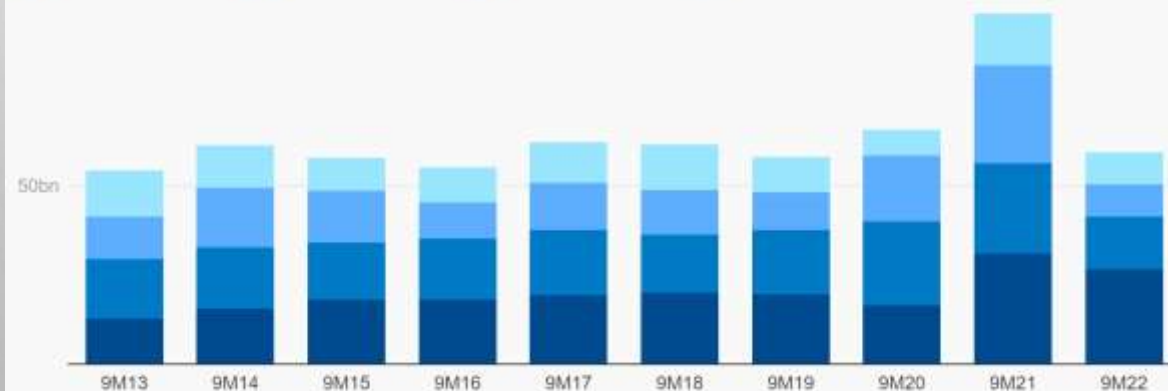
Fundraising services and trading to obtain **fee-based income and capital gains** through:

- Advice, design, underwriting, servicing, private placement on financial instruments
- Due diligence on M&A/buyouts/IPOs/...
- Trading, merchant banking, project financing
- Asset management, brokering for HNWI
- Market research

Global investment banking fees fall from record levels last year: 3Q13-2022 YTD

USD

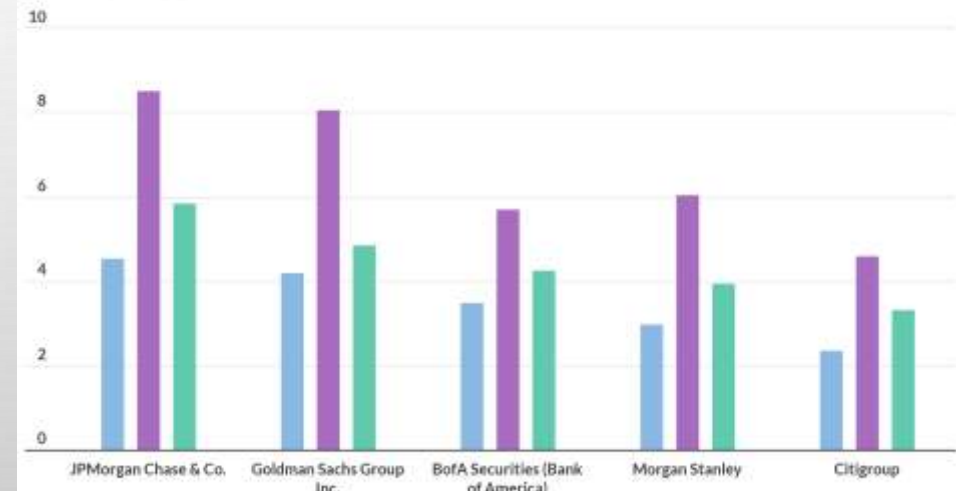
■ Mergers & Acquisitions ■ Debt Capital Markets ■ Equity Capital Markets ■ Syndicated Lending



Source: Dealogic

Investment Banking Revenue Drops

■ 2022 ■ 2021 ■ 2020



Source: Dealogic

BROKERS & DEALERS

Brokers:

- Servicing **investors** by matching buyers and sellers:
fee-based income
- **Orders** (market orders, limit orders), 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**



PE & VC



Many similarities, except for the targeted investment:

- **Limited partnerships of HNWI** buying **equity**: long term, high risk/return
- **Expertise, networking, monitoring**
- **Exit** through **IPOs** and **M&As**



- **Venture capital:**

- Supply funds to start-ups with growth potential but limited access to traditional markets
- Usually specialized: (seed, early/late-stage) and segment (f.i. biotech, IT, ...)

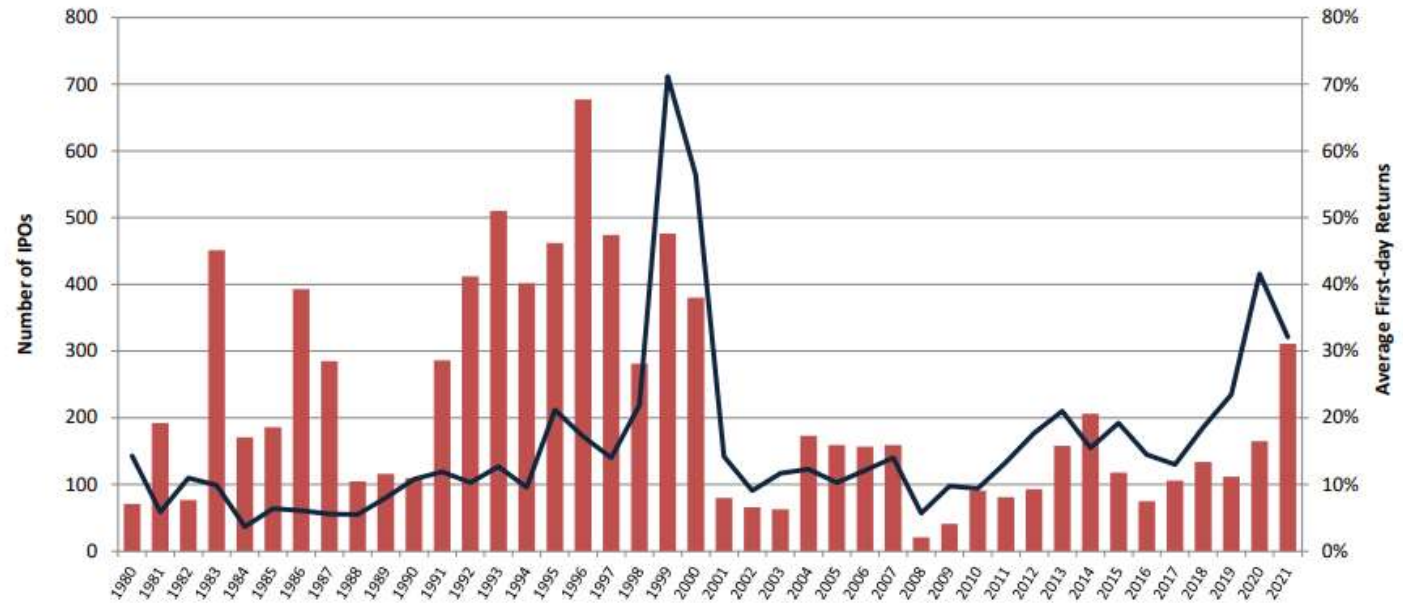


- **Private equity / buyout:**

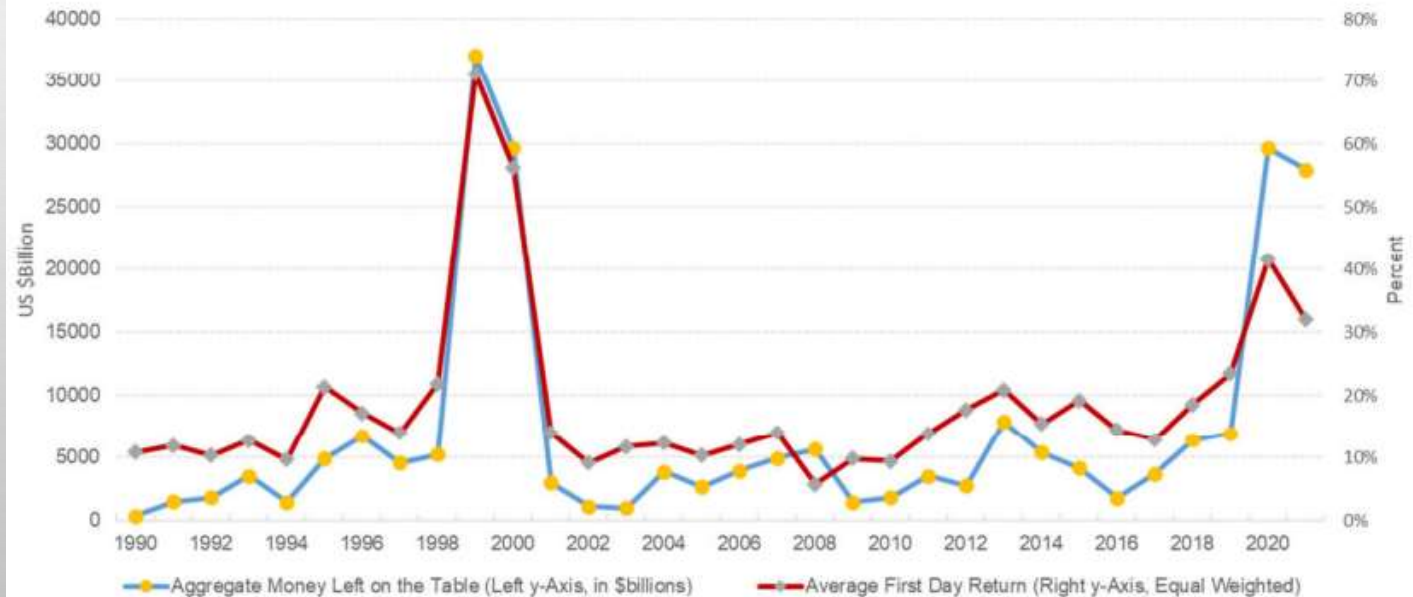
- buy troubled public companies to delist them (“private”)
- regulatory burden relieved, new management, return to profitability
- more capital absorbed, but more collateral available

EXAMPLES

1. IPO: 1 DAY RETURNS AND MLOTT



Average First Day Return and Aggregate Money Left On the Table, 1990-2021



(MLOTT: difference between day 1 close and offered price, times n. stocks offered)

EXAMPLES

2. PRICES AND RETURNS

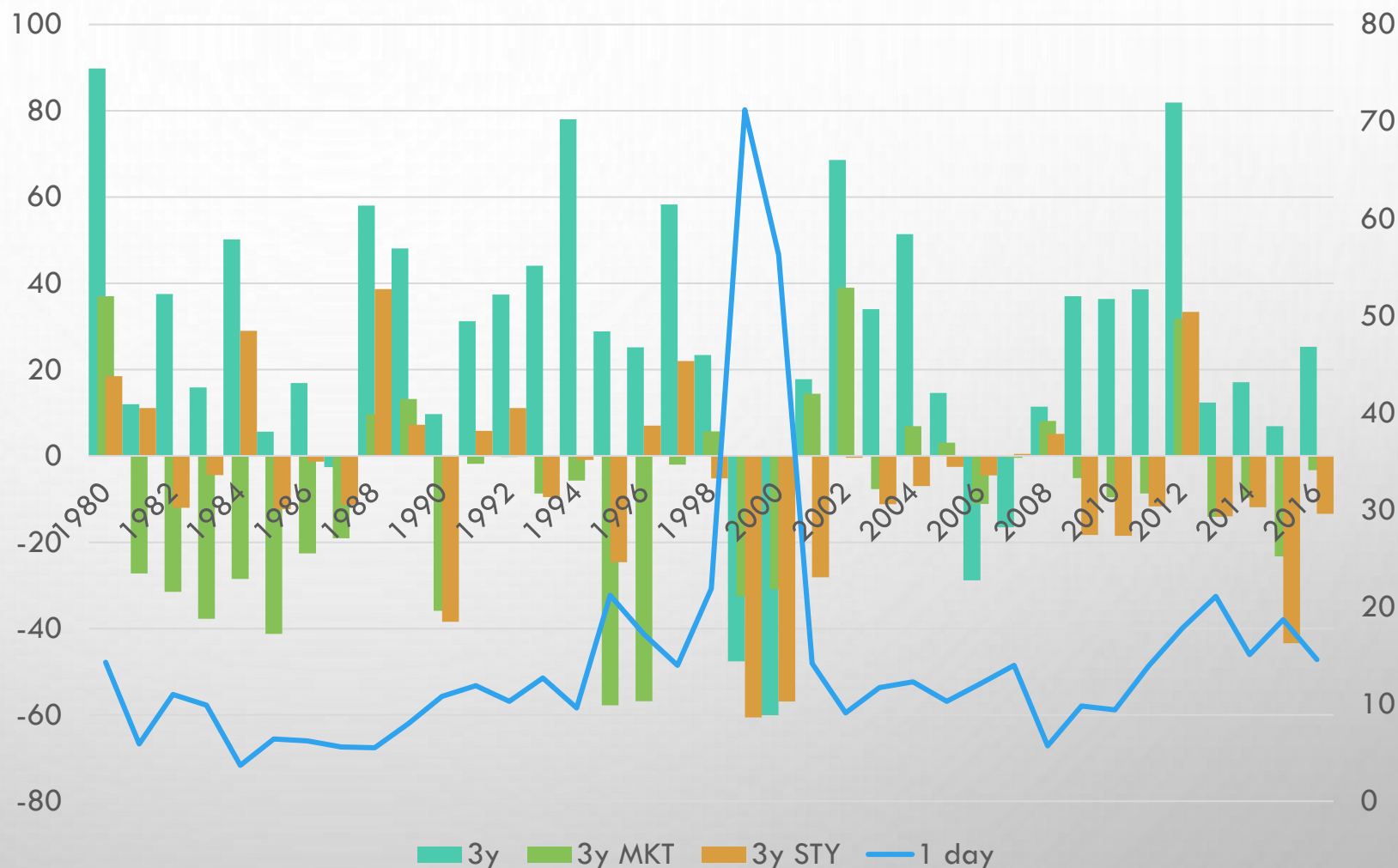
Percentage of IPOs relative to file price range:

	Below	Within	Above
1980-1989	30%	57%	13%
1990-1998	27%	49%	24%
1999-2000	18%	38%	44%
2001-2019	33%	45%	22%
2020-2021	14%	55%	31%
1980-2021	28%	49%	23%

Average first-day returns relative to file price range:

	Below	Within	Above
1980-1989	0%	6%	20%
1990-1998	4%	11%	31%
1999-2000	8%	26%	122%
2001-2019	3%	12%	38%
2020-2021	6%	24%	54%
1980-2021	3%	12%	50%

1 day and 3 year performance (adjusted for market or style)



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

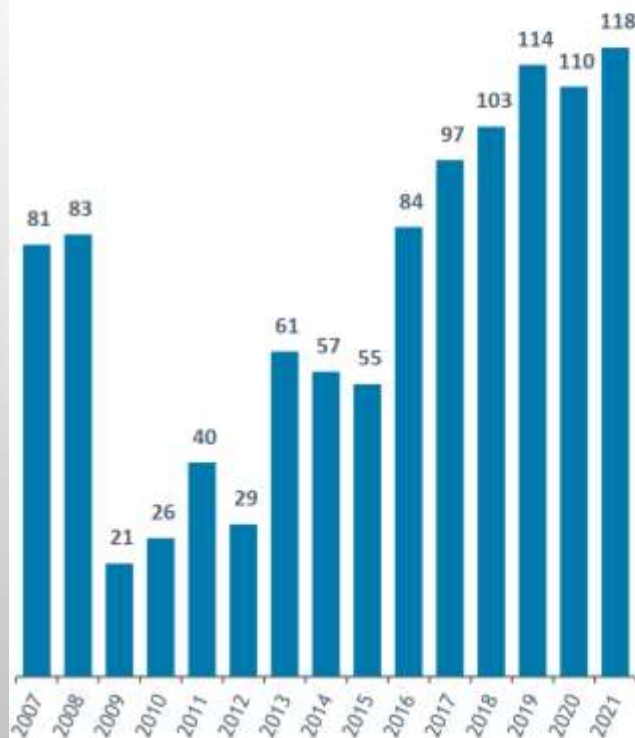
2001-2016: 1day 14.0%, 3y 20.8%, 3y MKT -1.6%, 3y STY -9.4%

EXAMPLES

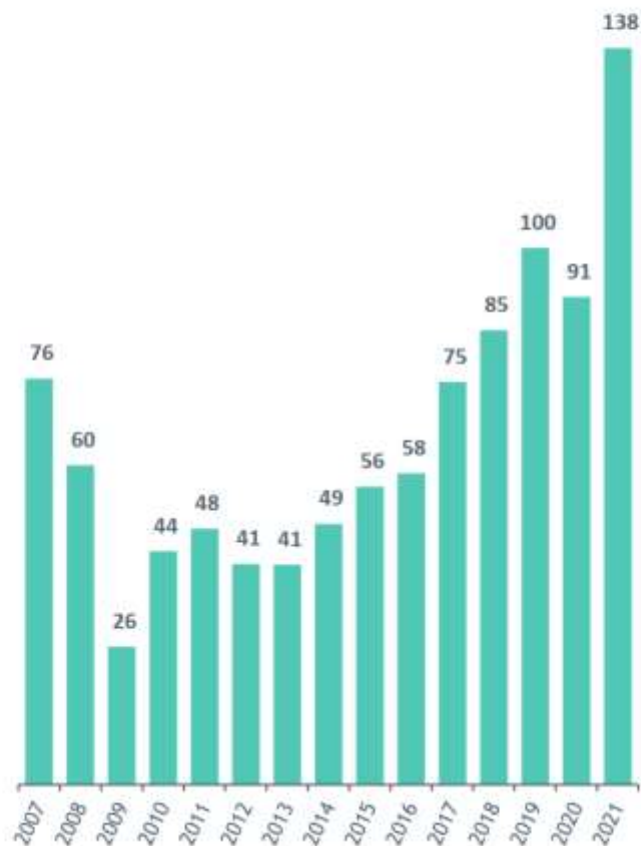
3. PE/VC (INVESTEUROPE)

2007-2021 - Amount (€ billion)

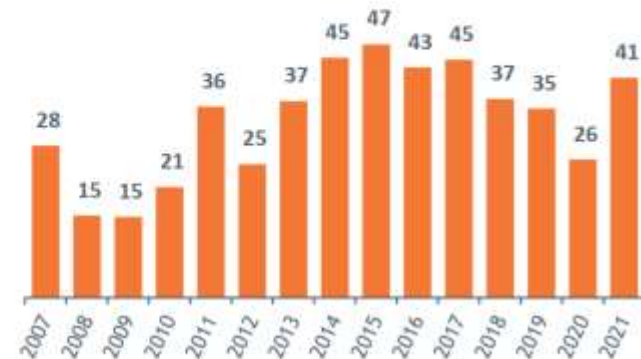
FUNDRAISING



INVESTMENTS



DIVESTMENTS



EXAMPLES

3. PE/VC (INVESTEUROPE)

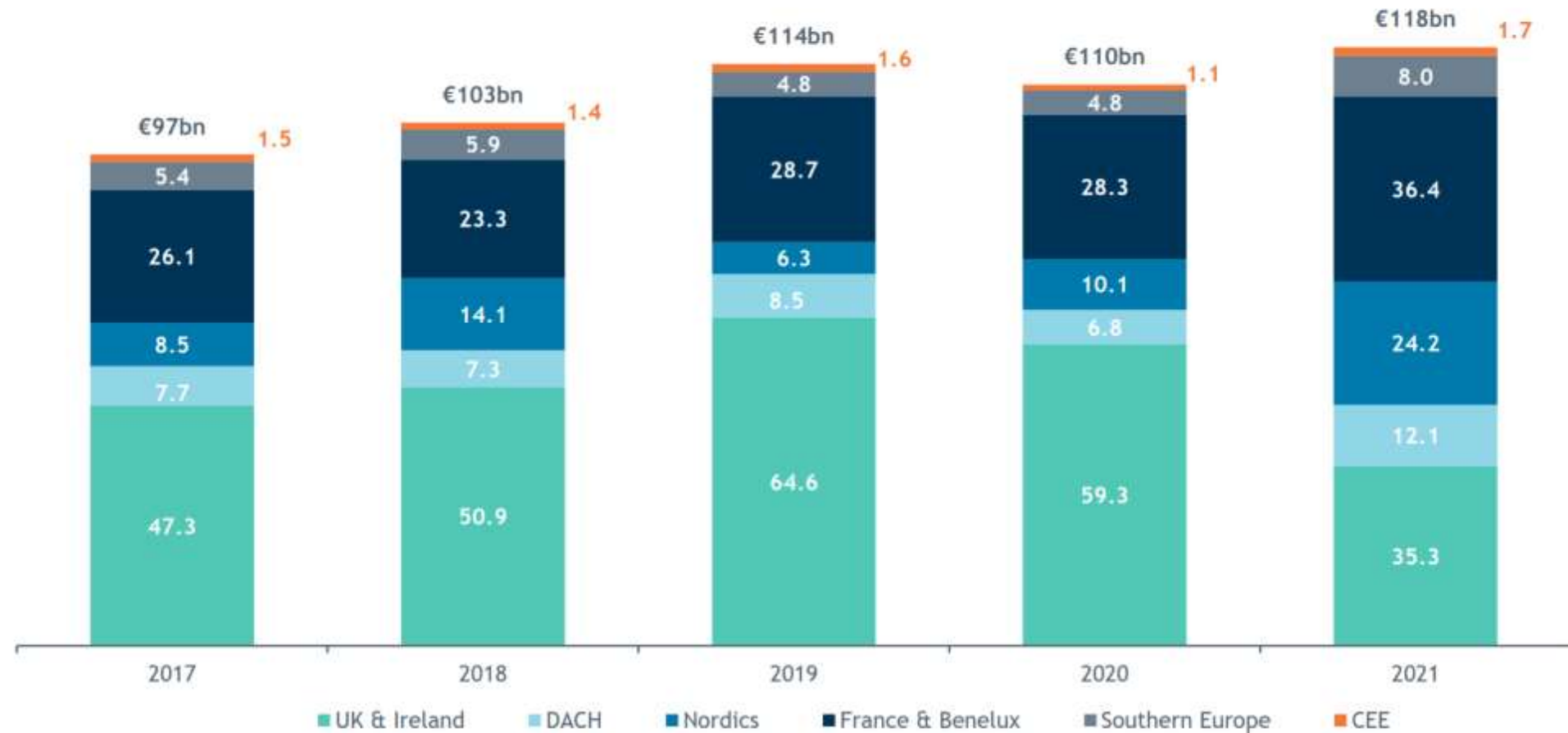
2007-2021 - Europe - Incremental amount raised during the year



EXAMPLES

3. PE/VC (INVESTEUROPE)

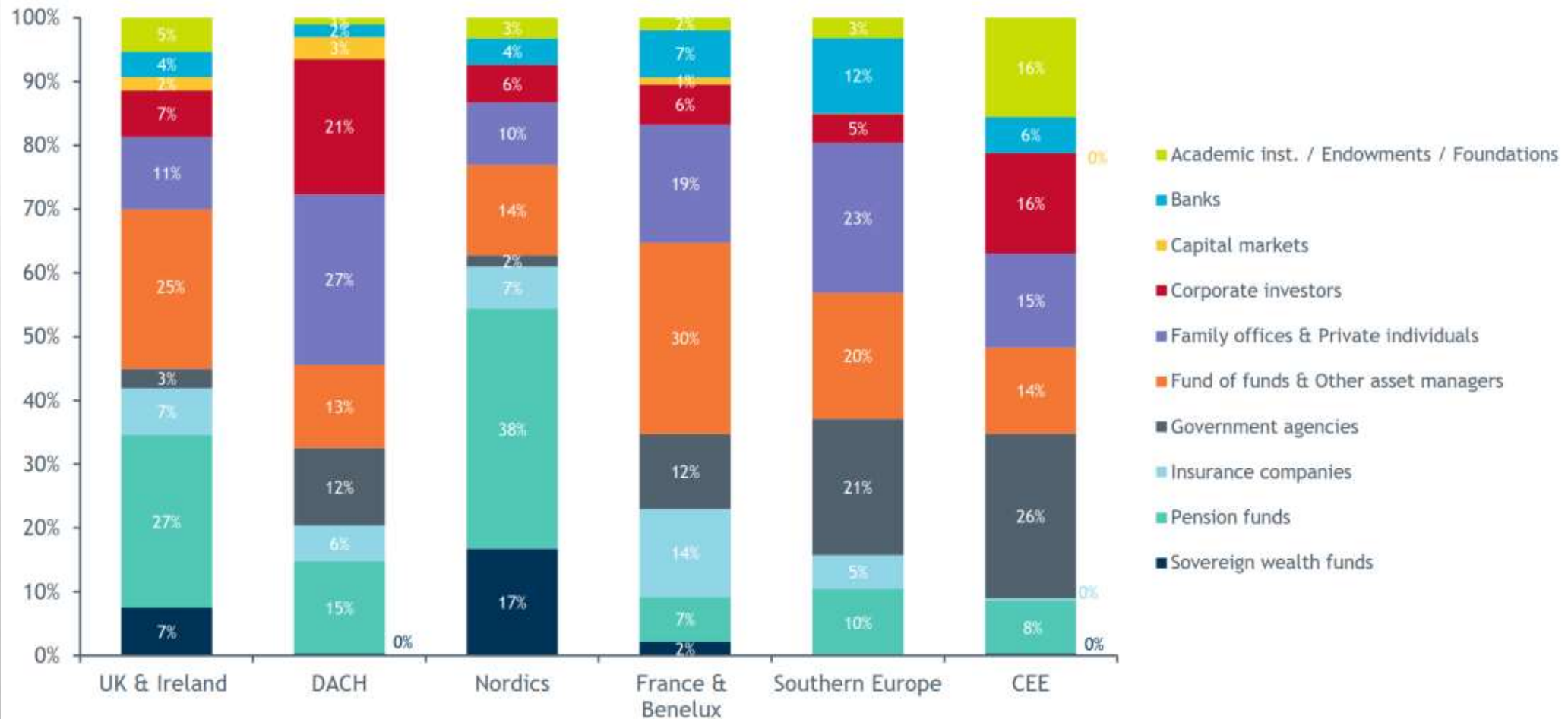
2017-2021 - Incremental amount raised during the year - € billion



EXAMPLES

3. PE/VC (INVESTEUROPE)

2021 - Incremental amount raised during the year - % of total amount



EXAMPLES

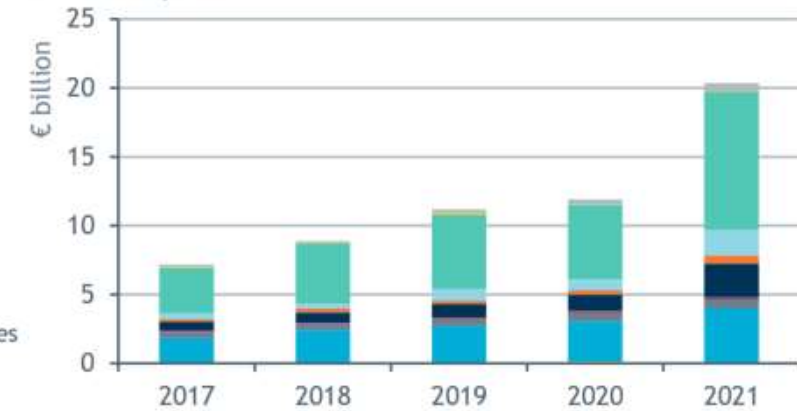
3. PE/VC (INVESTEUROPE)

2017-2021 - Market statistics - Amount

All Private Equity



Venture Capital



Buyout



Growth

