Journal of Applied Corporate Finance / Volume 20, Issue 3 / p. 35-57

The Rise of Accelerated Seasoned Equity Underwritings

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First published: 24 September 2008
https://doi.org/10.1111/j.1745-6622.2008.00192.x

Abstract

Seasoned equity offerings (SEOs) executed through accelerated underwritings have recently seen significant increases in global market share, and now account for a majority of the proceeds from both U.S. and European SEOs. Based on their study of over 30,000 global SEOs during the period 1991-2004, the authors conclude that accelerated offerings occur more rapidly (as their name suggests), raise more capital, and require fewer underwriters than conventional fully marketed SEOs. Accelerated transactions also typically involve larger, better-known companies that tend to be selling substantial amounts of secondary as well as primary secondary shares (whereas traditional SEOs consist almost entirely of primary shares).

Besides speed of execution, the growing popularity of accelerated deals is also attributed to lower spreads, the reduced price risk for issuers resulting from the brief underwriting period, and “market-impact” costs that are no larger than those that accompany traditional SEOs. Indeed, according to the authors' estimates, accelerated deals reduce the total issuance costs of U.S. issuers—in the form of lower spreads, market-impact costs, and underpricing—by 250 basis points, on average, while the cost reduction for European sellers is said to be close to 400 basis points. The authors also present an analysis of SEO investment banking syndicates that illustrates that accelerated deals yield much smaller, more capital-intensive, and presumably riskier underwriting syndicates that generate comparable revenues over much shorter transactions periods. In so doing, they enable larger, more reputable banks to “buy” market share and league table rankings.

The authors' findings underscore three major trends that are shaping global investment banking. First, the fact that accelerated deals are marketed almost exclusively to institutional investors, and that these underwriting methods are gaining market share, suggests the declining importance of retail investors in equity markets everywhere. Second, the rise of accelerated deals both promotes and reflects increasing concentration in the investment banking industry, since only the largest banks have the capital base and risk tolerance required to buy large share blocks outright and assume all or most of the price risk of later resale. Finally, the increasing use of accelerated underwritings for SEOs provides another case of the “commoditization” of financial transactions characterized by relatively low asymmetric information. Since ATs can be employed for shares of only large and well-known companies, these offerings are executed very quickly and cheaply—in much the same way plain vanilla corporate bonds are sold—and with minimal need for the placement and marketing services that investment banks use for IPOs and other non-transparent security offerings.

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