Warwick Economics Society

Divisional Starter Packs – Equity Capital Markets

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Equity Capital Markets

What is it?

Equity Capital Markets (ECM) is a product team within an investment bank which advises companies and shareholders on raising capital and executing transactions through the public equity markets.

ECM teams help private companies access public markets through Initial Public Offerings (IPOs), advise already-listed companies on raising additional equity capital and help existing shareholders sell large stakes in publicly listed companies.

As ECM sits at the intersection of traditional investment banking and public financial markets, the role combines transaction-based advisory work with continuous analysis of equity markets and investor behaviour.

Why do Companies Raise Public Equity?

Public equity markets provide companies with access to a large pool of capital from institutional and retail investors, making equity issuance an important source of financing for companies seeking to raise significant amounts of capital. Key reasons companies may choose to raise equity include:

1) **Access to Large Pools of Capital:** Public markets allow companies to raise capital from a broad range of investors, providing access to significantly greater funding than may be available from individual private investors.
2) **Provide Liquidity for Existing Shareholders:** An IPO or secondary offering can allow founders, private equity firms and other existing shareholders to sell part of their investment to public-market investors.
3) **No Mandatory Repayments:** Unlike debt, equity does not have to be repaid and does not create mandatory interest payments, making it particularly useful where a company does not want to increase its debt burden.
4) **Fund Growth & Acquisitions:** Equity proceeds can be used to finance capital expenditure, expansion, acquisitions and other strategic investments.

Types of ECM Transactions

Initial Public Offering (IPO): The first sale of a private company's shares to public investors, resulting in the company becoming publicly listed.

Follow-On / Secondary Offering: An already publicly listed company issues additional shares to investors, typically to raise further equity capital.

Rights Issue: Existing shareholders are given the right to purchase newly issued shares, typically in proportion to their existing ownership, allowing them to maintain their percentage ownership if they participate.

Accelerated Bookbuild (ABB): A rapid sale of a large number of shares to institutional investors through an accelerated bookbuilding process, often completed overnight or within a short period.

Daily Responsibilities of an ECM Analyst

The day-to-day responsibilities of an ECM analyst vary depending on equity market conditions and the transactions they are working on**.** Typical responsibilities include:

- **Market Monitoring:** Tracking equity markets, share-price movements, valuation multiples, volatility and recent ECM transactions.
- **Valuation & Pricing Analysis:** Analysing comparable companies and recent transactions to support the valuation and pricing of equity offerings.
- **Preparing Materials:** Producing pitch books and client presentations.
- **Investor Analysis:** Analysing investor feedback and demand to help determine the appropriate pricing and allocation of shares.
- **Transaction Execution:** Supporting live IPOs, follow-on offerings, rights issues and block trades throughout the marketing, bookbuilding, pricing and allocation process.

Key Skills Required:

- **Financial Analysis & Valuation** - assessing a company's performance, growth prospects and valuation against listed peers.
- **Equity Markets Knowledge** - understanding IPOs, follow-on offerings, rights issues and share pricing.
- **Market Awareness** - tracking share prices, investor sentiment and suitable issuance windows.
- **Analytical & Numerical Skills** - analysing comparable companies, trading data and potential dilution using Excel and market databases.
- **Communication & Teamwork** - preparing client materials and coordinating with syndicate, sales, research and legal teams.
- **Attention to Detail & Time Management** - checking transaction materials and managing work across live deals under tight deadlines.

ECM Division Specific interview advice:

Most banks don’t offer ECM Spring Programmes so this is mainly targeted at Spring Conversion or Summer Internship Interviews, however the areas you should know for spring week interviews have been highlighted. Some areas it would be good to develop an understanding of are:

- Equity Valuation: Comparable Companies, Precedent Transactions and DCF Analysis as well as common multiples such as P/E
- Merger Model: Accretion and Dilution
- IPO Process: be able to explain the key stages of an IPO
- Equity Market Fundamentals: Understand key concepts like market capitalisation and factors affecting share prices
- Recent ECM Transaction: Research a recent IPO or equity issuance, including the rationale, valuation, pricing, investor demand and subsequent share-price performance. (**Spring)**
- Current Equity Market Trends: Follow IPO activity, market volatility, investor sentiment and sectors experiencing particularly strong or weak issuance activity. **(Spring)**
- Macroeconomic Environment: Understand how factors such as interest rates, inflation and economic growth affect equity valuations and companies' willingness to raise equity. **(Spring)**