

Equity Raisings

There are a number of ways that firms can raise equity. Some include:

Initial Public Offerings (IPO's): Also known as a 'float' or 'listing'. This is when a firm first issues shares into the public stock market. Shares are offered to everyone, usually through a broker.

Seasoned Equity Offerings (SEO's): Same as an IPO, but it is the second or third time that the firm is trying to raise equity.

Private placements: Same as an SEO, but the shares are only offered to a particular, usually wealthy, small group of investors. The shares are not offered to the general public.

Rights issues: These are only offered to existing shareholders. For example, a 2 for 5 rights issue with a subscription price of \$10. This means existing shareholders may buy 2 new shares from the company for every 5 shares that they already own, for a price of \$10 each. The subscription price has to be less than the market price of the share to entice shareholders to take part.

Dividend Reinvestment Plans (DRP's): This is where a shareholder may elect to receive their dividends in the form of more stock rather than cash. The advantage for the shareholder is that the price of the shares bought is usually set at a price slightly below the market price. There are also no brokerage fees to pay. Some people argue that DRP's do not

raise equity, they just prevent it from being paid out, which has some truth.

All of the above methods of equity raising increase the number of shares on issue:

$$\uparrow E = \uparrow n_{shares} \cdot P_{share}$$