Definition

Private companies issue shares to public and become public companies. Investment banks assist throughout the process. Share sales meetings are arranged throughout the country and throughout the world (**Roadshow**). During the roadshow, investor interest is gathered with amounts and quotes (**Book building**).

Registration, listing and discounting

Stock gets registered with the SEC and gets a ticker. Stock get listed with an exchange (ex: NYSE). On the first day of trading, book orders are filled then public sale takes place. There is usually a discount on book orders compared to the first day floor trading price (**IPO discounting**). If investment bank provides a **committed service**, all shares are purchased by the investment bank and then sold to the public at later dates.

If it is a **best effort service**, all shares are sold to public and those that are not sold are returned to the issuer. Investment banks usually provide **market making services** for the newly issued stocks to provide liquidity. Because private companies are taken to public, available information is lower compared to public companies. Number of analysts following the company is also lower. Less transparency, more uncertainty and usually more volatile price. Percentage of company that is sold at the IPO is usually low (ex: 10-15%).

Investment banks

Do not collect deposits like commercial banks. Do not give credits like commercial banks. Provide investment advise and fund management. Provide market making services. Provide institutional investment services. Assist institutions to raise capital via share and bond issues.

Seasoned equity offering (SEO)

Subsequent to the IPO, more information becomes available about companies. More analysts follow companies. More transparency, less uncertainly and usually less volatile price. As price increases, companies may chose to sell more shares to the public.

Primary market

When the issuer (of stock or bond) sells the issues for the first time, proceeds go to the issuer. The market in which the issuer is the recipient of issue proceeds. Example: Initial public offerings (IPOs).

Secondary market

After the initial issue, public owns the shares (or bonds). Investors can trade their shares among themselves via equity markets. Issuer has nothing to do with the proceeds. Proceeds of the sale of shares (or bonds) go to those who are selling their own shares. Example: Trading IBM shares during a regular NYSE trading session.