



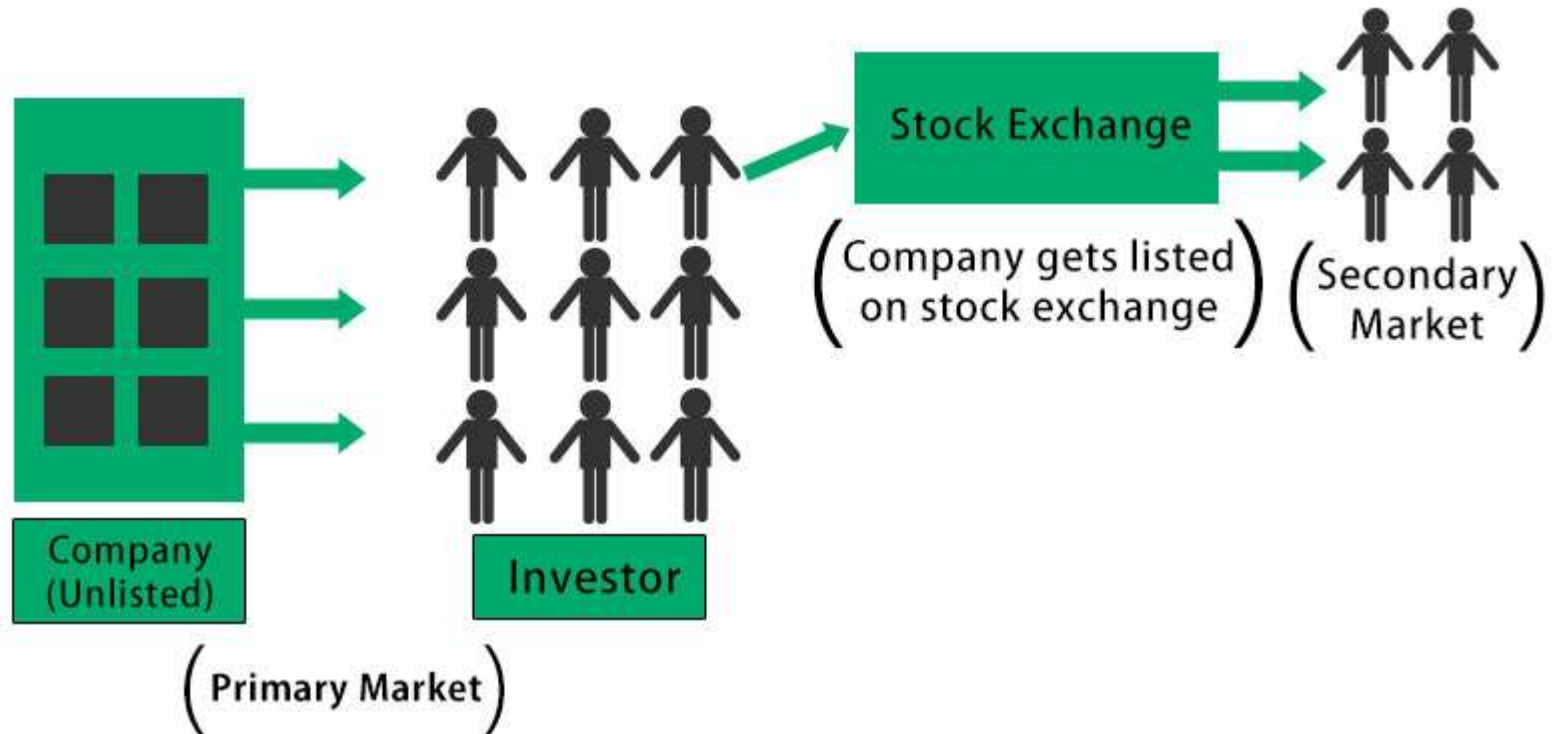
Business Finance : course n°2
**Financial markets : Stock exchange
markets and IPO, Equity markets.**
What is free float ?

BA 2nd Year - 01/10/2019

What is a share ?

- A share is a « title » / **securitie** issued by a corporation (for example, a public limited company or a partnership limited by shares).
- It entitles the holder to own part of the capital, together with the rights associated with it : to intervene in the controle of the company with the **voting right** and to receive an income called a **dividend**.
- The liability of the shareholder is limited.

Secondary Market



Capital structure evolution

- Keep in mind that a share is perpetual : it is never reimbursed. In consequence the **nominal price** (price of the first issuance) isn't importante. Only the market price matters.
- But, the company can buy back its shares on the stock market, those purchases are called « **treasury shares** ». Those shares can be cancelled, and the effect is a **capital reduction** for the company.
- The others possibility is **issuing** new shares, with the effect of **increasing the capital**.

Example of L'Oréal



●	33,14 %	Mme Françoise Bettencourt Meyers et sa famille ⁽¹⁾
●	29,12 %	Institutionnels internationaux
●	23,18 %	Nestlé
●	8,24 %	Institutionnels français
●	4,73 %	Actionnaires individuels
●	1,45 %	Salariés ⁽²⁾
●	0,14 %	Auto-détention

What is a market capitalisation ?

- The value of a listed company is calculated simply by multiplying the outstanding number of share by the market price.
- The norm is to use the last price of the last trading day (the « close price »).
- Have in mind that this value can be influenced. For example, if a big investor send a purchase order at the last moment of the day it may have the effect of increasing the price, sometime significantly, having an effect on the market cap that is artificial.
- Buying all the shares to acquire the control of a company would require a much higher price.
- Market cap is used to classify listed company in 3 categories : small cap (**300M to 2B**), mid cap(**2B to 10B**) and large cap(**>10B**).

Calculate a market capitalisation

- **Practical work** : calculate the market capitalization of the following companies : LVMH ; SMCP ; Fashion Bel Air ; Barbara Bui
- Classify them into their capitalization categories.

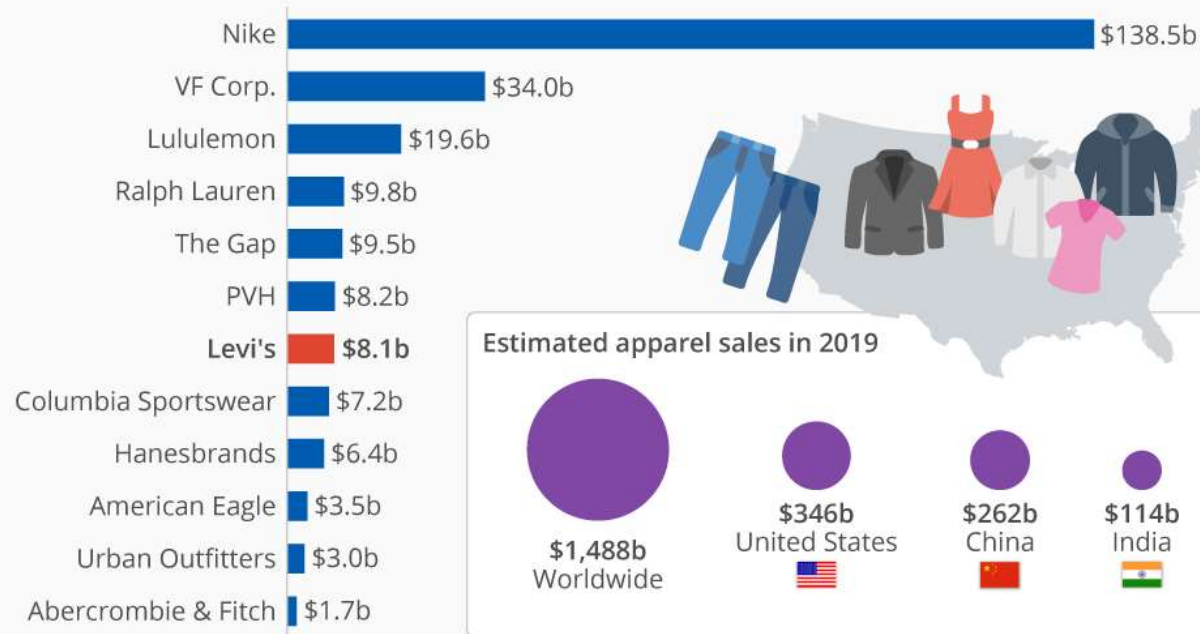
Initial Public Offering

- IPO stands for Initial Public Offering. Referred to as taking a company public, the IPO involves a private company offering its shares to the public for purchase for the first time. Thereafter the shares become listed on a stock exchange and trade in the open market.
- Prior to an IPO, a company is considered private. As a private company, the business has grown with a relatively small number of shareholders including early investors like the founders, family, and friends along with professional investors such as venture capitalists or angel investors.

US Apparel ; March 2019

Where Levi's Stands After Its Second IPO

Market capitalization of selected U.S. apparel companies*



CC BY ND
@StatistaCharts

* as of market close on March 21, 2019

Sources: Yahoo Finance, Statista Global Consumer Outlook

statista

Source : <https://www.statista.com/chart/17449/market-capitalization-of-apparel-companies/>

Why be listed on the stock market?

- There are two types of IPO: **with and without capital increase**, either the company listed on its existing shares (in this case no fresh money for the company immediately), or company carries out a capital increase via the IPO.
- Offer liquidity to existing shareholders: It is difficult to sell shares of an unlisted company, it is also difficult to give an objective price to a company
- Business growth leads to equity needs The capital increase allows a return of fresh money, which eventually allows to increase its leverage with constant leverage.
- Once the IPO is completed, it is easier to make subsequent capital increases
- The shares of a publicly traded company may be used as a bargaining chip for the acquisition of another company during a Public Exchange Offer.
- Listing improves a company's visibility, gives it credibility with banks and managers

What is free float ?

- **Free float**, is the portion of the capital of a publicly traded company that is not owned by stable shareholders who are presumed not to sell their shares in the short term.
- It is therefore the share of the capital of the company that is likely, in the short term, to be sold on the stock market. All things being equal, the higher a company's float, the better the liquidity of its stock and the lower the price range of its stock.
- Therefore, during the IPO a minimum share of 10 to 20% of securities must be sold to the market in order to attract institutional investors, a large number of asset managers sets minimum liquidity rules to include a title in their portfolio.

What is EDF free float ?

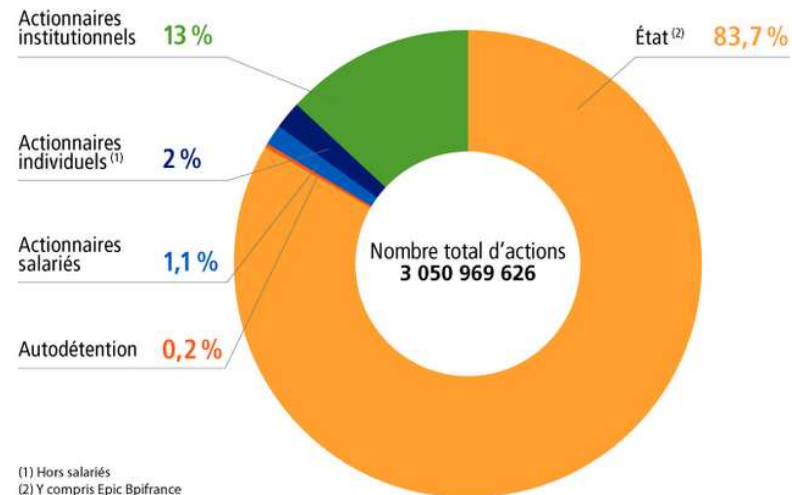


[VERSION GRAPHIQUE] -
RÉPARTITION DU CAPITAL
SOCIAL AU 30 JUIN 2019

[VERSION TABLEAU] -
RÉPARTITION DU CAPITAL
SOCIAL AU 30 JUIN 2019

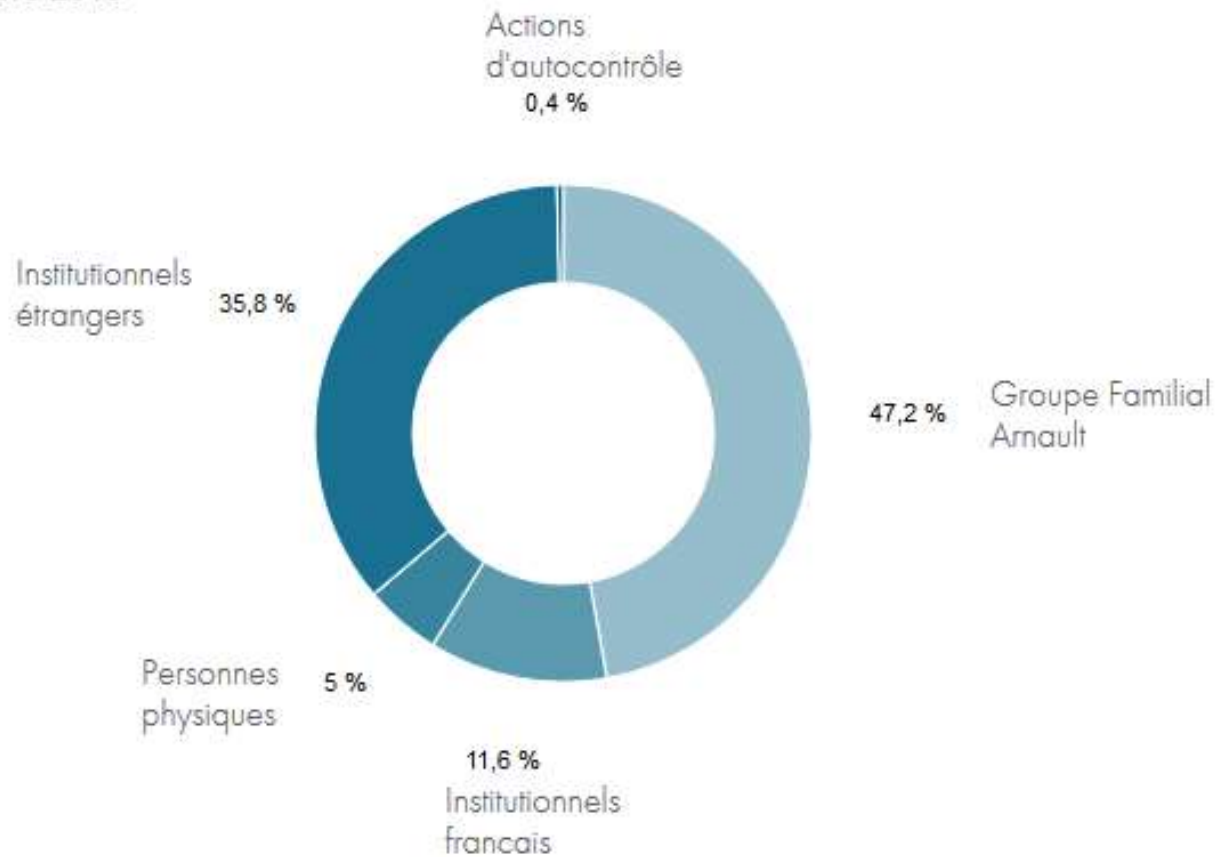
Structure du capital

Répartition du capital social au 30 juin 2019



What is LVMH free float ?

Décembre 2018



Share ownership regimes

- An investor may hold shares in the following forms : **Live** (live securities) on an account managed directly by the investor or managed by a professional according to the constraints chosen by the investor : it is the management under mandate.
- In **collective management** via a legal entity specially created to receive money from investors and define the objectives of the fund (which are described in the prospectus).
- In France, the law defines the Collective Investment Scheme (UCITS) which may be invested in Mutual Fund (FCP; eng: mutual funds) or Investment Companies with Variable Capital (SICAV).

Facts & Figures about stocks exchange

Which are the biggest stock exchange markets ?

Stocks markets by region : Americas ; Europe ;
Middle East & Africa ; Asia

How to classify ? Using total market caps ; but
trading volumes should be considered.

What was recent markets value evolution ?

Facts & Figures about stocks exchange

Sources : https://en.wikipedia.org/wiki/List_of_stock_exchanges

<https://fr.investing.com/>

Facts & Figures about stocks exchange

Stock markets vs bonds markets ?

https://en.wikipedia.org/wiki/Bond_market

<https://www.bis.org/statistics/secstats.htm>

<https://finance.zacks.com/bond-market-size-vs-stock-market-size-5863.html>

Luxury industry in stock exchange markets

Proportion of luxury industry.

Facts & Figures about stocks exchange

Stock markets vs bonds markets ?

What about France ?

Practical work : select the stock index that you would find representative. Then find market value of bond market.

Facts & Figures about stocks exchange

What about France ? Practical work : select the stock index that you would find representative.
Then find market value of bond market.

<https://www.boursier.com/guide/debuter-en-bourse/les-principaux-indices-boursiers>

Cac all tradable = not findable ; CAC 40 easier to find

https://www.boursier.com/indices/composition/cac-40-FR0003500008_FR.html?tri=dcapi

Value : 1 750 Billions €

https://www.theglobaleconomy.com/France/Stock_market_capitalization/

Debt : <https://www.aft.gouv.fr/>

1 835 Billions € (only for negociable debt = central government)

If we include private debt : corporate + financial institutions ; the bond market

Luxury industry in stock exchange markets

Practical work : have a look at what we can find on the Paris stock market
(Euronext Paris)

<https://www.boursier.com/secteurs/industrie/agroalimentaire-biens-de-consommation/textile-habillement-accessoires/composition>

Luxury industry in stock exchange markets

Proportion of luxury industry.

The sector is very well represented in france.

Practical work ; refere to the source

<https://www.boursier.com/indices/composition/cac-40-FR0003500008,FR.html?tri=dcapi> to calculate the value of the following industries : luxury ; finance ; automobile