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Underwriter relationships and shelf offerings

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Abstract

We compare the motivations for switching underwriters between seasoned equity offerings (SEOs) for both shelf offerings and traditional offerings. Shelf offerings have risen in importance and accounted for more than 90% of SEOs in 2015. In traditional offerings, the underwriter is selected before the terms and pricing of the deal are set. In contrast, shelf issuers request proposals or bids from underwriters for the sale of securities and the underwriter is selected based on the pricing, terms and services offered in the bid. The competitive and transactional nature of the shelf registered market may reduce switching costs for the issuer and potentially increases the issuer's bargaining power. This suggests that underwriter switching in shelf offerings might have different, heretofore unexplored, drivers from traditional offerings. The results suggest that cost-considerations motivate switching in shelf offerings whereas underwriter reputation motivates switching in traditional offerings. However, changes in underwriter reputation can themselves be associated with changes in cost. Cost considerations also impact switching from traditional offerings to shelf offerings.

Key words: Underwriter switching; Reputation; Seasoned equity offerings; Shelf offerings.

JEL classifications: G24; L14.

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