



California Debt and Investment Advisory Commission

The Role of the Financial Advisor and Underwriter

Presented by

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We Are Discussing the Two Roles Together Because ...

- There can be sufficient similarities in the two roles that we avoid being redundant
- To hopefully prove that FAs and Bankers can successfully work together

[Illustrate with ven diagram with overlapping ovals—to come]



Where They Come From

- Financial Advisors
 - Usually independent consulting firms
 - Range from one-person shops to national firms with multiple offices
 - Occasionally investment bankers wearing another hat
 - Do not purchase the bonds they work on
- Underwriters
 - National, regional or boutique broker-dealers
 - Investment banking staff structures the transaction
 - Underwriting and sales staff prices and distributes the transaction to investors
 - As senior manager, the underwriting firm purchases the bonds they work on



Key Roles of These Two Players

- Formulating debt financing plan
 - Role of FA and Underwriter may overlap
- Selling the Bonds
 - Role of FA and Underwriter very different
- Underwriter really plays two roles
 - Investment banker
 - Marketing, sales and underwriting



Formulating the Plan of Finance (FA and/or Banker)

- What are you (i.e., the issuer) trying to accomplish?
- How are you going to pay for it?
 - Bonds are not the answer; how do you pay off the bonds?
- When do you need the money?
- What is the broader context?
 - Total debt structure
 - Financial policies



Designing the Plan of Finance (FA and/or Banker)

- Type of debt-backed
 - Revenue or tax-backed
 - Bond or COP
 - Fixed or variable
- Term of debt



Execution—Where the Roles Can Diverge

- Competitive sale
 - FA structures and brings the transaction to market
 - Numerous underwriting firms bid to purchase these bonds
- Negotiated sale
 - Underwriter selected earlier in the process
 - Underwriter helps to structure the bonds as well as purchase them
 - May or may not have an FA involved



Key FA/Banker Roles in Execution— Competitive or Negotiated Sales

- Documentation
 - Indenture
 - Official Statement
- Credit process
 - Ratings
 - Bond insurance



Key Underwriter Roles in Execution—Negotiated Sale

- Investment bankers work with their desk to develop bond structure and terms to be attractive to investors
- Underwriter and sales desk pre-market bonds to investors
- Establishes initial pricing terms
- Takes orders
- Re-prices as appropriate
- Executes bond purchase agreement (“BPA”)



Key FA Roles in Execution— Negotiated Sale

- Reviews and analyzes proposed bond structure and terms
- Reviews and analyzes proposed spread and interest rates
- Reviews performance



Key FA Roles in Execution— Competitive Sale

- Prepare notice inviting bids
- Post official statement
- Receive bids on electronic platform
- Manage closing



Key Underwriter Roles in Execution—Competitive Sale

- Bid on the bonds
- Underwriting firm with the highest price/lowest yield wins and enters into BPA with issuer



When Do You Hire a Financial Advisor?

- When you don't know whether you want to sell bonds at competitive or negotiated sale
- When you know you want to sell bonds at a competitive sale
- When you want an independent voice in the process



How Many Cooks Are Too Many Cooks?

- Financial advisors are not just for “unsophisticated” and “infrequent” issuers
 - Large, frequent issuers tend to use financial advisors on all of their transactions
- FA’s can play a range of roles and relationships on negotiated underwritings from:
 - Structuring the entire transaction and bringing on a desk at the end just to sell the bonds; to
 - The limited role of a pricing advisor
- Key to a successful sale is a team that works together in the issuer’s interest