

Center for Financial Excellence Presents

***General Motors' IPO: Underwriters'
Roles, Responsibilities and Best Practices***

Advanced Corporate Finance 451

March 31, 2011

The Fuqua School of Business

Duke University

Lead Practitioner: Morgan Stanley

Discussion Themes 1
(The Science)

- 1. IPO Common Share Valuation**
 - Valuation methodologies used
 - Ford comparable
 - GM adjustments
 - Book runner ranges/differences (use of median)
- 2. Financial Bridges: Historical Financials → Management Forecast → EBITDAP Projection**
- 3. Fully diluted TSO components and calculations**
- 4. Series B Preferred Stock**
- 5. Use of Proceeds**

Discussion Themes 2
(The Art)

- 1. Underwriters' roles and responsibilities**
 - Investment Banking Division and Equity Capital Markets
- 2. Underwriters' due diligence**
- 3. S-1 process/risk factors analysis**
- 4. Road show process, management preparation, anticipation of investors' questions /concerns**
- 5. Managing existing shareholders' interests and expectations (price vs. float) and sell-down considerations**
- 6. Managing the book running process**

You are a first year associate at Morgan Stanley, working in the industrials group. Your MD is in charge of GM coverage. She hurriedly asks you to derive the pre-IPO equity value of GM from the trading value of the bonds of Old GM. "Shouldn't be too difficult", she says. You know one thing. It will almost certainly be difficult, and more complex than she knows. But you do have a few facts at your disposal.

1. Old GM is the bankrupt entity that retained most of GM's liabilities and transferred its assets to new GM in exchange for common stock and warrants. Old GM is now known as Motors Liquidation Corp (MLC) to avoid confusion in the market.
2. MLC unsecured bonds currently trade on Bloomberg, and, the most liquid bond is currently trading at 34.8 cents/dollar.
3. MLC owns 158.6MM GM shares (150MM + 8.6MM adjustment shares in #5 below). Other entities that invested in GM, including the US Treasury, own the other 1,699MM shares for a total of 1,857MM shares.
4. But the equity ownership is not as simple as your MD might think. MLC also owns 136.4MM 7- year warrants with a strike price of \$10.00 / share and 136.4MM 10-year warrants with a strike price of \$18.33 / share.
5. MLC will also receive 8.6MM additional shares if their liabilities are as currently disclosed (\$37 billion). However, you heard that additional claimants for asbestos and other liabilities may increase this number and thereby increase the shares owned by MLC.
6. MLC has no other assets aside from the shares and warrants discussed above.
7. The VEBA also owns 45.5MM 6.5-year warrants in GM with a strike price of \$42.31 / share.

Your assignment for class is not to value GM as your MD asked, but to be prepared to discuss the steps you might be able to take to arrive at that value.



Ken Pott

Managing Director, Head of Corporate Finance Execution

Ken is a Managing Director in Global Capital Markets at Morgan Stanley. He is the head of the Capital Markets Execution Group and chairman of the Equity Commitment Committee. He has executed numerous large and complex equity, convertible and high yield transactions including IPOs for General Motors, JetBlue, Blackstone and UPS. He joined Morgan Stanley in 1987. Prior to then Ken worked at the Congressional Budget Office. He has a Bachelor of Arts degree in Public Policy from Duke University and received his MBA from the Stanford Graduate School of Business.



Jean Seo

Vice President, Equity Capital Markets

Jean is a Vice President in Equity Capital Markets and has executed the IPO of General Motors, in addition to a number of equity transactions, including the Nielsen Holdings IPO earlier this year. Prior to joining ECM, she was an Associate and Analyst in the Investment Banking Division at Morgan Stanley, as well as a Chinese Art Specialist at Sotheby's Auction House in New York and London. She has a Bachelor of Arts degree in Economics and Art History from Wellesley College.



Andrew Sims

Analyst, Industrials Investment Banking

Andrew is an Analyst in Industrials Investment Banking at Morgan Stanley. He has executed the IPO of General Motors, term loan financing for Spectrum Control acquisition (pending), a high yield notes offering for Spirit AeroSystems and a notes offering for Tyco International. He joined Morgan Stanley in 2009 and has a B.S. from Washington & Lee University.



Seth Gardner

**Executive Director, Center for Financial Excellence
The Fuqua School of Business**

Seth Gardner is the Executive Director of the Center for Financial Excellence at The Fuqua School of Business at Duke University. Seth joined Fuqua in November 2009.

From 2003 to 2009, Seth worked at Cerberus Capital Management, L.P. in New York City, where he was a Managing Director in the private equity group and responsible for sourcing, evaluating, structuring and negotiating private equity transactions. During 2008 and 2009, Seth played a lead role in managing the restructurings of the firm's investments in GMAC, Chrysler, and Chrysler Financial. While at Cerberus, Seth served on the boards of directors of several portfolio companies, including Chrysler Financial, Tower Automotive and Scottish Re.

From 1995 to 2003, Seth was an associate at Wachtell, Lipton, Rosen & Katz, a New York City law firm, where his practice specialized in large corporate restructurings, reorganizations and workouts. Seth graduated from Duke University in 1989 with an A.B. degree. He also received an M.B.A. from The Fuqua School of Business at Duke University and a J.D. from Duke Law School in 1994.



Vish Viswanathan

**F. M. Kirby Professor of Investment Banking
The Fuqua School of Business**

S. "Vish" Viswanathan is the F. M. Kirby Professor of Investment Banking at the Fuqua School of Business. His research focuses on collateral, leverage and liquidity in the context of financial intermediaries and financial markets. Other recent research includes the definition of illegal manipulation, the nature of episodic liquidity in financial markets, merger waves and non-cash auctions. Professor Viswanathan's research has been presented at a number of international and national conferences and has been published in the Journal of Finance, the Review of Financial Studies, the Journal of Financial Economics, the Rand Journal of Economics, the Journal of Finance and Quantitative Analysis, the Journal of Business and the Journal of Business Economics and Statistics.

Professor Viswanathan has taught Corporate Restructuring, Corporate Finance, and Advanced Corporate Finance to a wide range of academic and professional audiences. Further, Professor Viswanathan is a Co-Editor of the Journal of Financial Intermediation, Associate Editor of the Journal of Financial Markets, and a member of the Program Committee of the Western Finance Association.

Professor Viswanathan received his B.S. in Science from the University of Bombay, his Master of Management Studies from the Jamnalal Bajaj Institute of Management Studies at the University of Bombay and his Ph.D. in Finance from the Kellogg Graduate School of Management at Northwestern University.

About the Center

The Center for Financial Excellence advances MBA finance education by bridging foundational academic concepts and theories with essential applied skills and best practices utilized by finance practitioners. The Center also enhances students' understanding of the roles and responsibilities associated with financial industry career paths. Further, the Center elevates students' awareness of the profound public policy considerations and important regulations that govern the financial industry. Additionally, the Center promotes and supports Fuqua's world-class faculty in its leading research and curricular initiatives.

The Center for Financial Excellence was founded in 2009 in the aftermath of the global financial crisis. Pre-crisis, mastery of textbook financial concepts was widely accepted as a measure of educational success for MBA finance graduates. The financial industry's near-death experience revealed critical shortcomings in this standard. While MBA students must develop a mastery of core financial theories, Fuqua recognizes that far more is expected of finance professionals in today's global, hyper-competitive, fast-changing, and ultra-demanding environment. The Center for Financial Excellence, through its practitioner administered boot camps, financial industry focused programs, workshops and other innovative educational and career development initiatives, works diligently to help prepare Fuqua's MBA students to meet the financial industry's rapidly evolving needs and challenges and to become finance practitioners and leaders of consequence and excellence.