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Appendix C

NOTE ON AGENCY RATINGS AND "QUALITY" DISTRIBUTION

Each of the public offerings examined in Chapter 6 bore an agency rating at issue. The purpose of this note is to compare those agency ratings with the basic classes used in Chapters 3 and 4, above.

The procedure used, for the purpose of making this comparison, was as follows:

1. First, a seventh column was added to the two matrixes (Charts 6 and 13). This was done because many public offerings are issued by very large companies and the matrixes used to classify direct placements failed, to give full effect to this fact. The class interval over the next-to-last column became $135.1 million to $540.0 million instead of $135.1+, and the class interval over the last column became $540.0 million and over. In effect, therefore, those public offerings with total capitalization in excess of $540.0 million were ranked one class higher than would otherwise have been the case.

2. The public offerings in the sample were then deposited in the appropriate cells of the revised matrixes, and the class of each thus ascertained. This was done separately, of course, for industrials and utilities.

3. No attempt was made to average ratings when they differed as between the agencies: in all cases, the Standard and Poor's rating was used.[1]

4. The agency ratings and the classes were then cross-classified.

The results, which are given in Tables C-1, for industrials and C-2 for utilities, are of some interest. The percentages are calculated

[1] Translated into a Moody equivalent.

TABLE C-1

Industrials: Distribution in Numbers and Per Cent of Public Offerings by Agency Rating and Direct Placement Class, 1951–61

	Class					
Agency Rating	1	2	3	4	5–7	Total
AAA						
Number	14	--	--	--	--	14
Per cent	21.2	--	--	--	--	
AA						
Number	37	3	1	--	--	41
Per cent	56.1	7.9	1.7	--	--	
A						
Number	13	30	24	5	--	72
Per cent	19.7	78.9	41.4	19.2	--	
BAA						
Number	2	5	31	16	3	57
Per cent	3.0	13.2	53.4	61.5	30.0	
BA						
Number	--	--	2	5	7	14
Per cent	--	--	3.4	19.2	70.0	
Total						
Number	66	38	58	26	10	198
Per cent	100.0	100.0	100.0	100.0	100.0	

down the columns. Thus, of the sixty-six industrial public offerings which fell into class 1, fourteen (21.2 per cent) were rated Aaa by Standard and Poor's, thirty-seven (56.1 per cent) were rated AA, thirteen (19.7 per cent) were rated A, and two (3.0 per cent), Baa. The same procedure was followed for the other classes and for utilities.[2]

[2] The addition of one or two carefully selected variables would probably enable us to distinguish, with a much higher degree of accuracy, among the agency ratings.

TABLE C-2

Public Utilities: Distribution in Numbers and Per Cent of Public Offerings by Agency Rating and Direct Placement Class, 1951–61

Agency Rating	1	2	3	4	5	6–8	Total
AAA							
Number	37	2	—	—	—	—	39
Per cent	44.6	3.2					
AA							
Number	38	30	8	3	1	—	80
Per cent	45.8	47.6	17.4	16.7	16.7		
A							
Number	8	30	33	12	3	1	87
Per cent	9.6	47.6	71.7	66.7	50.0	33.3	
BAA							
Number	—	1	5	3	2	—	11
Per cent		1.6	10.8	16.7	33.3		
BA							
Number	—	—	—	—	—	2	2
Per cent						66.7	
Total							
Number	83	63	46	18	6	3	219
Per cent	100.0	100.0	100.0	100.0	100.0	100.0	

Table C-3 compares the "quality" distribution of public offerings with the "quality" distribution of direct placements—separately for industrials and utilities. The results should be interpreted with caution. The sample of direct placements is, presumably, representative, but public offerings of under $2 million of face amount were not included in the sample of public offerings. Subject to this caveat, three tentative conclusions emerge:

1. The average "quality" of public offerings is probably substantially higher than the average "quality" of direct placements—virtually all public offerings fall in classes 1 to 5, whereas 50.5

TABLE C-3

Comparative Distribution in Numbers and Per Cent of Public Offerings and Direct Placements, by Class, 1951–61

	Class						
	1	2	3	4	5	6–8	Total
			Industrials				
Number							
Public offerings	66	38	58	26	10	—	198
Direct placements	61	110	233	311	329	400	1444
Per Cent							
Public offerings	33.3	19.2	29.3	13.1	5.1	—	100.0
Direct placements	4.2	7.6	16.1	21.5	22.8	27.7	100.0
			Public Utilities				
Number							
Public offerings	83	63	46	18	6	3	219
Direct Placements	6	22	62	137	162	342	731
Per cent							
Public offerings	37.9	28.8	21.0	8.2	2.7	1.4	100.0
Direct Placements	0.8	3.0	8.5	18.7	22.2	46.8	100.0

per cent of industrial and 69.0 per cent of utility direct placements fall in class 5 and above.

2. The number of industrial direct placements vastly exceeds the number of industrial public offerings: the sample of the latter used constitutes virtually the whole universe of industrial public offerings sold, 1951–61, except, of course, for those of less than $2 million of face amount.[3]

3. The number of utility direct placements is not appreciably greater and may be smaller than the number of utility public offerings. (The sample of utility public offerings represented about 30 per cent of all those sold, 1951–61.)

[3] Convertible issues were not included.