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Going public abroad☆

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ABSTRACT

We examine the decision of a firm to go public abroad and list securities outside their country of origin. Foreign IPO issuers are more likely to choose a global underwriter but only if the home country is less financially integrated. We find that the probability of conducting a foreign IPO is higher if the home country has a less developed stock market, its disclosure regime is weaker and is less financially integrated. Using a matched sample, we show that foreign IPOs raise more capital than their domestic counterparts. Finally, the determinants of the choice of a US listing are unique. Our results suggest that the rise of global underwriters facilitates the movement of capital across nations and contributes to world financial globalization.

1. Introduction

In the wake of the financial crisis, researchers have been interested in the channel by which capital flows throughout the world economy. The recent IPO literature has documented that issuing firms are increasingly turning to global markets to raise funds. Henderson et al. (2006) estimate that about 12.2% of new capital raised through public equity offerings during the 1990 to 2001 period was conducted cross-border. Kim and Weisbach (2008) find that although most capital raising occurs

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predominantly in domestic markets, an increasing number of companies turn to global markets as a source of funds. Gozzi et al. (2010) estimate that 39% of firms in their sample raise equity outside their home countries in 2005.

In a recent paper, Doidge et al. (2013) (hereafter, DKS) show that world globalization has facilitated an increase in the number of companies choosing to issue shares outside their home country. Using an aggregate measure of financial globalization (the sum of external assets and liabilities across all countries divided by the world GDP), they find that more IPOs choose to have an international tranche when the world market is more financially integrated. However, the channel by which financial globalization facilitates the movement of capital is less understood.

By employing a database that covers 21,809 issuing firms from 31 countries over 17 years (from 1995 to 2011), we examine which firms benefit the most from going public abroad and how the trend toward greater globalization of capital affects the international IPO market.[1] In order to differentiate the effects of globalization on the market for new issues, we consider three different types of offers based upon both share issuance and listing: 1) domestic IPOs (issued only in the home country), 2) foreign IPOs (issued in a foreign country but not their home country), and 3) global IPOs (issued simultaneously in the home and foreign countries). In addition, our study differs from DKS in that we require firms conducting foreign and global IPOs to list, not just sell securities, in the listing country. Thus, our focus is on the decision to leave the home country to conduct an IPO and at the same time, commit to a foreign country's regulatory regime.[2]

We find evidence consistent with our hypothesis that the use of global underwriters is one of the primary channels that facilitates the movement of capital across nations and contributes to world financial globalization. We define an underwriter as global, if in a given year, the underwriter takes at least two companies public from different home countries and lists at least one of these companies outside of its home market. We document that the number of global underwriters has grown steadily over the last 15 years and this increase is correlated with the trend in the level of world financial globalization documented in DKS (2013). Although global underwriters represent no more than 20% of the total number of underwriters participating in at least one IPO in each year of our sample, they capture up to 80% of the worldwide IPO proceeds raised between 1996 and 2011.

The increase in the number of global underwriters reflects the increased globalization of investment banking services (Ljungqvist et al., 2003) and worldwide convergence toward bookbuilding for pricing and allocating IPOs (Jagannathan et al., 2000). Furthermore, while most foreign and global issues are underwritten by a global underwriter, 67% of domestic IPOs are as well. Thus, the ability of firms to conduct an IPO outside their home country is related to the increase in both the familiarity of issuers and underwriters with bookbuilding methods and access to global underwriter services.

Our main hypothesis is that financial globalization and particularly, global underwriter activity affects the decision to list abroad after controlling for firm characteristics, market development and institutional environment of the home country. We examine the determinants of global underwriter activity and usage in two ways. First, on a country-by-country basis, we examine what factors contribute to greater global underwriter activity, measured as either the percentage of IPOs or the percentage of proceeds underwritten, in the home country. We find that the more developed the capital market, the greater the return on the home market and the higher the level of financial globalization in the home country, the greater the percentage of IPOs and proceeds underwritten by a global underwriter. Consistent with the international flow of capital, the more foreign IPOs that are in the home country, the greater is the global underwriter activity.

Second, we analyze the decision to employ a global underwriter at the individual offering level. Firms that are larger, more profitable and not in a technology-related industry are more likely to use a global underwriter. Not surprisingly, foreign and global IPOs are also more likely to employ a global underwriter for their offering. However, we find that these issuers are less likely to do so if they originate in countries with greater financial globalization. Thus, the need to employ a global underwriter to go public outside the home country is mitigated if the issuer originates in a country with greater familiarity with global issuance. We find no evidence that world financial globalization affects the decision to employ a global underwriter but the level of home country financial globalization does.

In addition, we analyze whether firm and market characteristics affect the decision to list abroad. A comparison between domestic IPOs and foreign and global IPOs indicates that firms listing abroad are significantly larger in terms of total assets, have lower profitability, and are more likely to be in a high technology industry. We also find that issuers with greater foreign sales are more likely to conduct a foreign or global IPO. Companies with large foreign sales go public abroad to capitalize on investor familiarity with the firm through its product market (Pagano et al., 2002). Thus, the benefits of listing abroad appear to be limited to mature firms with an existing international presence.

Another benefit of listing abroad is that the firm can access investors who may be better informed and provide a higher valuation than in the home country (Chemmanur and Fulghieri, 2006; Subrahmanyam and Titman, 1999). We document that the fewer the number of recent IPOs that went public in the same industry as the issuing firm and the greater the number of recent IPOs that went public outside the home country, the more likely a firm will go outside the home country for capital.

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[1] Our analysis does not suffer from a US bias as we exclude any IPO whose home country is the US.

[2] Other papers examine issuers who list abroad at the time of the IPO but concentrate on either a specific listing country or country of origin. For example, Bruner et al. (2004) examine 245 international firms from 43 countries that conduct an IPO in the US from 1991–1999 and conclude that the primary driver for listing in the US appears to be a common border and language. Blass and Yafeh (2001) examine differences in Israeli IPOs that list at home and abroad and surmise that Israel, because it is a bank-dominated financial system, is not as conducive for funding innovative firms as a stock market-based financial system like the US.