



Rewards of U.S. Listings

Increasingly, preeminent firms from around the world have made listing on the NYSE an integral part of their business strategies. In fact, much of the NYSE's growth has been international. In 1990, fewer than 100 non-U.S. companies valued at \$81 billion traded on the Exchange. Today, the NYSE's non-U.S. list includes more than 470 companies with a global market cap of nearly \$4 trillion.

BROADER VISIBILITY

A key reason for listing, according to many non-U.S. companies, is the visibility it provides, helping them attract more customers, business partners and investors. Indian pharmaceutical company **Dr. Reddy's Laboratories Ltd. (RDY)** joined the NYSE in April 2001. "The listing in itself has enabled us to gain substantial visibility and presence on a world basis," says CFO V.S. Vasudevan. This is especially important given the company's increased focus on the U.S. market and desire to be benchmarked with its U.S. peers, he says. The increased recognition has also enabled the company to grow its talent pool, especially in science, management and marketing, Vasudevan adds.

The Thomson Corp. (TOC) says its June 2002 listing in the U.S. was the next logical step in its evolution as "the leading global provider of integrated information solutions," says President and CEO Richard J. Harrington. "The NYSE listing has helped position Thomson among the leading companies in the world."

AU Optronics Corp. (AUO), a manufacturer of flat-panel displays in Taiwan, says its NYSE listing was "a recognition of our global position and our integrity as a business partner for our clients," says CFO Max Cheng. "Being listed in the U.S. enables us to expand our global exposure and allows investors outside of Taiwan to have AUO as part of their portfolio."

An NYSE listing can also increase the liquidity of a non-U.S. company's stock. "We now have a fairly liquid ADR program, with trading volumes averaging 600,000 and exceeding 1 million shares on many days," says Nils Paellmann, vice president of Investor Relations at **Deutsche Telekom AG**

(**DT**). Thomson's Harrington also says: "Our listing enabled us to achieve improved liquidity, benefiting Thomson and our shareholders."

Trading on the NYSE can also increase the trading that takes place in a company's home market. A recent study by Andrew Karolyi of the Fisher College of Business at Ohio State University showed that in the first three years after a U.S. listing, turnover ratios in the home markets increased 25%, and global turnover increased an average of 68%.

WHETHER IT'S
TO ADVANCE THEIR
LONG-TERM
CAPITAL-RAISING
PROGRAMS, EXPAND
THEIR INVESTOR BASES OR
GROW VISIBILITY
WORLDWIDE, NON-U.S.
COMPANIES
PRAISE THE BENEFITS
OF U.S. LISTINGS.

ACQUISITION CURRENCY

For many companies, a U.S. listing enables them to use their shares for acquisitions or other M&A activity, or to establish themselves should M&A opportunities arise. One of the largest cross-border deals involving ADRs was Deutsche Telekom's acquisition of U.S. mobile communica-

tions operator VoiceStream Wireless in 2001. When Deutsche Telekom launched its ADR program in 1996 as part of its privatization and simultaneously listed in Frankfurt, New York and Tokyo, Paellmann says the company had no acquisition targets in sight.

"If we hadn't had an ADR program in place at that time, we would have had to create one," he says. And now that the acquisition has given the company strong brand presence in the U.S., he says it's easier to win new investors.

CAPITAL RAISING

By listing in another locality, the potential to raise capital cheaply and more efficiently can become a reality, particularly for those domiciled in emerging markets. For example, because of the August 2000 listing of **Petróleo Brasileiro S.A.—Petrobras (PBR)**, Brazil's largest industrial company, the Brazilian government was able to raise about \$2.6 billion in the U.S. (out of a nearly \$4 billion global offering) in the largest ever non-U.S. offering on the NYSE (see chart, next page). The Brazilian government raised another \$636 million in the U.S., out of a total global offering of about \$806 million, in July 2001. Both offerings reduced the economic

interest of the Federal Government in Petrobras to a minimal 32.5% while maintaining its controlling interest of 51% of the voting shares.

“You cannot dream of increasing your shareholder base depending only on the local capital market,” says CFO João P. Nogueira Batista. “You have to be able to access the main source of funding in equity, which is the capital markets in the U.S.”

But to secure long-term access to primary issuance, Petrobras first had to diversify its shareholder base. “Our NYSE listing was an essential part of that,” Batista says. Today, he adds, the company has a much broader shareholder base that includes many core value and long-term investors (see pie charts, below).

The same holds true for Deutsche Telekom, which has tripled its shareownership, up from 45 million ADRs issued in 1996 to 170 million outstanding today, a third of which are held by U.S. investors, Paellmann says. He estimates that nearly 200 U.S. institutions and 100,000 U.S. retail investors own its ADRs.

“An ADR program is certainly a way to appeal to retail investors and certain institutional investors—for example, long-term investors who prefer ADRs because they have lower holding costs than ordinary shares,” he explains.

In fact, some institutions, such as state pension funds, are restricted from owning shares of non-U.S. companies that don’t have ADRs, says Robert A. Simms, chairman of Simms Capital Management, an independent firm that manages pensions, endowments and assets of wealthy individuals. The Simms International Fund says it uses only ADRs to access foreign ownership. “We’re not confident that we’re getting good clean information if the company is not reporting regularly and doesn’t have U.S. GAAP accounting,” Simms explains. “A U.S. listing

is what makes foreign securities acceptable to those who are concerned about governance, transparency and accounting standards.”

TRANSPARENCY

That’s because companies listing in the U.S. must register with the SEC, conform to U.S. GAAP accounting standards, and adhere to rules and regulations of the U.S. markets, which might be more familiar to U.S. investors and more rigorous than those of the company’s home market. DT’s Paellmann says he sees the rewards of increased transparency and disclosure that go along with the U.S. listing: “It gives us additional credibility with investors. More information and dependable information is something that investors appreciate, and the listing forces us to provide it on a regular basis.”

For Petrobras, Batista says its listing has effected a cultural transition, as employees and executives are now focused on shareholder value and profitability. “We moved from being what used to be referred to as a black box to being the most transparent company,” he says, noting that Petrobras recently won awards for its investor-relations and communications programs. “The demand from shareholders and analysts for information is an important promoter of cultural change.”

Last summer, the Sarbanes-Oxley Act was signed into law, legislation that requires all companies, foreign and domestic, that trade in the U.S. to adhere to certain governance rules, such as requiring CEOs and CFOs to confirm the veracity of financial statements. While the new requirements might seem burdensome, some non-U.S. companies view them positively.

“Certainly there’s an additional cost, but there’s also an opportunity to increase credibility and trust,” adds Paellmann, “and credibility in the current environment is key.” □

