BETTER POLICIES FOR BETTER LIVES

GROWTH COMPANIES, ACCESS TO CAPITAL MARKETS AND CORPORATE GOVERNANCE

Fianna Jurdant, Senior Policy Analyst, OECD
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Overview

- **Focus**: Growth companies
- **Data**: Transaction and/or firm-level data
- **Analysis**: How companies enter and use public equity and corporate bond markets

Growth companies: What are they?

- Dynamic companies that have the potential to escape a state of being a small or medium-sized enterprise.
- Eurostat-OECD definition: All enterprises with average annualised growth greater than 20% per annum, over a three year period.
- US Jumpstart Our Business Startups Act (JOBS Act) definition: An issuer that had total annual gross revenues of less than USD 1 billion during its most recently completed fiscal year.

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Growth companies: Why are they important?

- The corporation is a key engine for development and economic growth.
- Growth companies contribute to innovation, productivity and net job creation.
- Play an important role in challenging established corporations. As competitors they force established corporations to be more creative.

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Growth companies: What do they need?

- Access to **<u>capital</u>** for investment in tangible as well as intangible assets.
- But not all capital is the same:
  - ❑ Some kinds are suitable for short-term use and some can be used for longer and more uncertain undertakings.
  - ❑ They also differ with respect to the conditions upon which they can be obtained.
  - ❑ Of particular importance for long-term investment and growth is equity capital.

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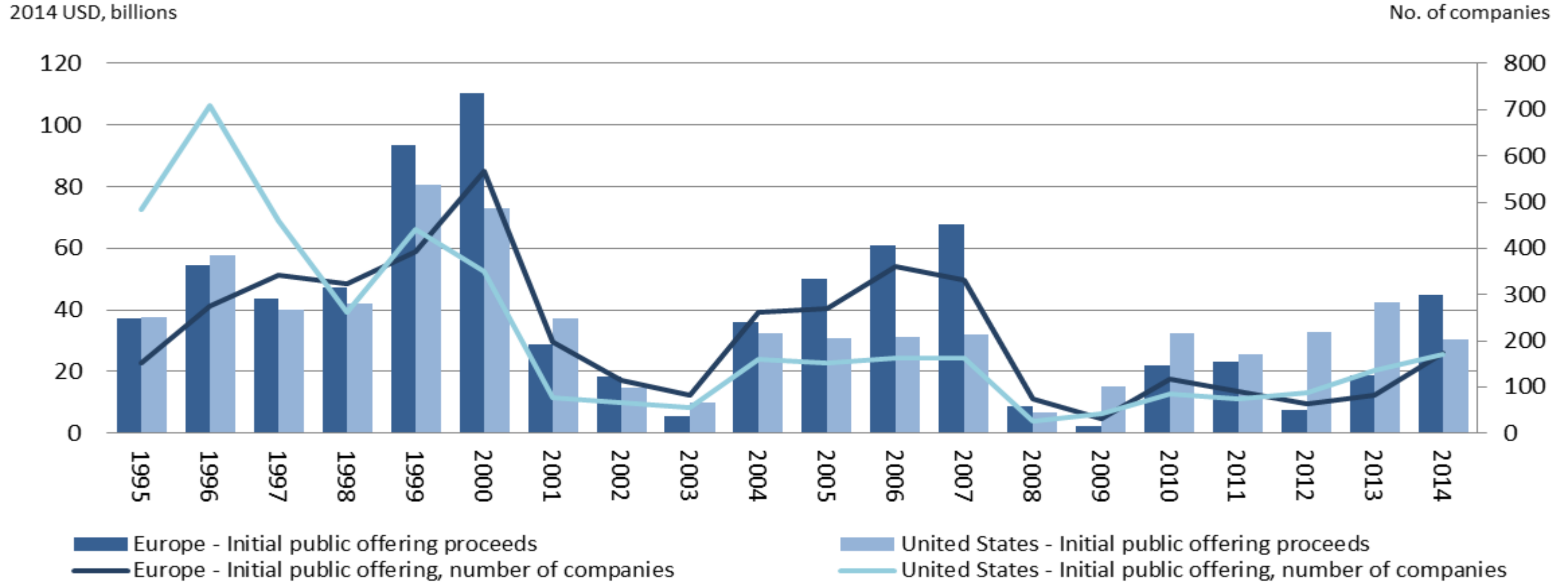
Growth companies use of public equity markets (1)

IPOs by US and European non-financial companies

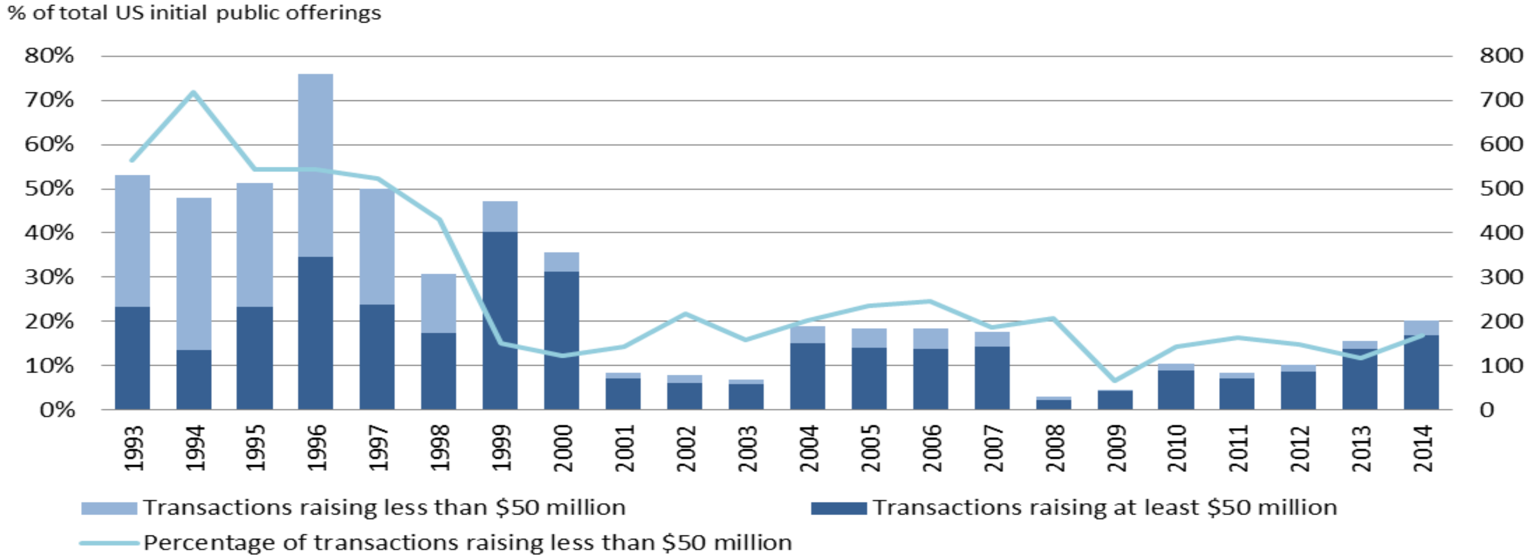


Source: Thomson Reuters, OECD calculations

- In the US;
  - 1995-2000 annual average number: 451
  - 2001-2014 annual average number:104
- In Europe;
  - 1995-2000 annual average number: 343
  - 2001-2014 annual average number:160

Growth companies use of public equity markets (2)

The decline in small company IPOs in the US



Source: Thomson Reuters, OECD calculations

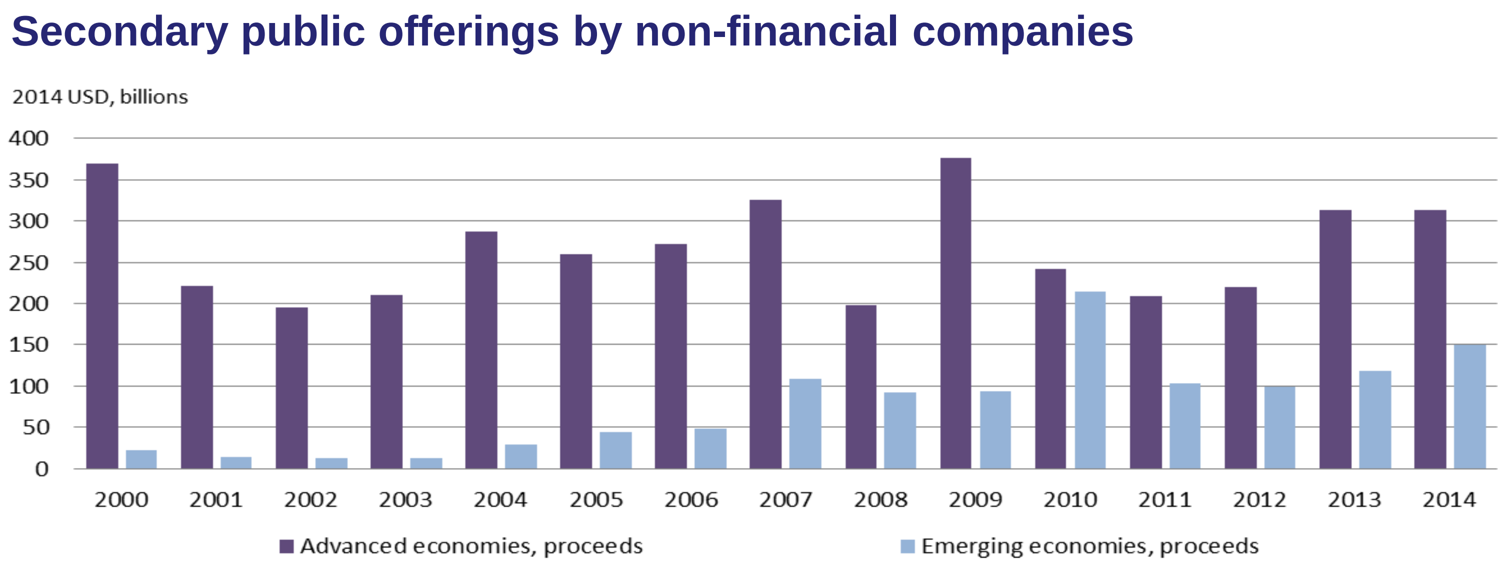
- In the 1993-1997 period, small companies constituted 58% of all IPOs on average.
- Declined to 17% in 2014.

Growth companies use of public equity markets (3)

Source: OECD calculations, based on data from Thomson Reuters New Issues Database, Datastream, stock exchanges' and companies' websites.

- Non-OECD markets from serving 20% to 60 % of all IPOs
- Less reliance on OECD markets compared to 2004-2007

Growth companies use of public equity markets (4)

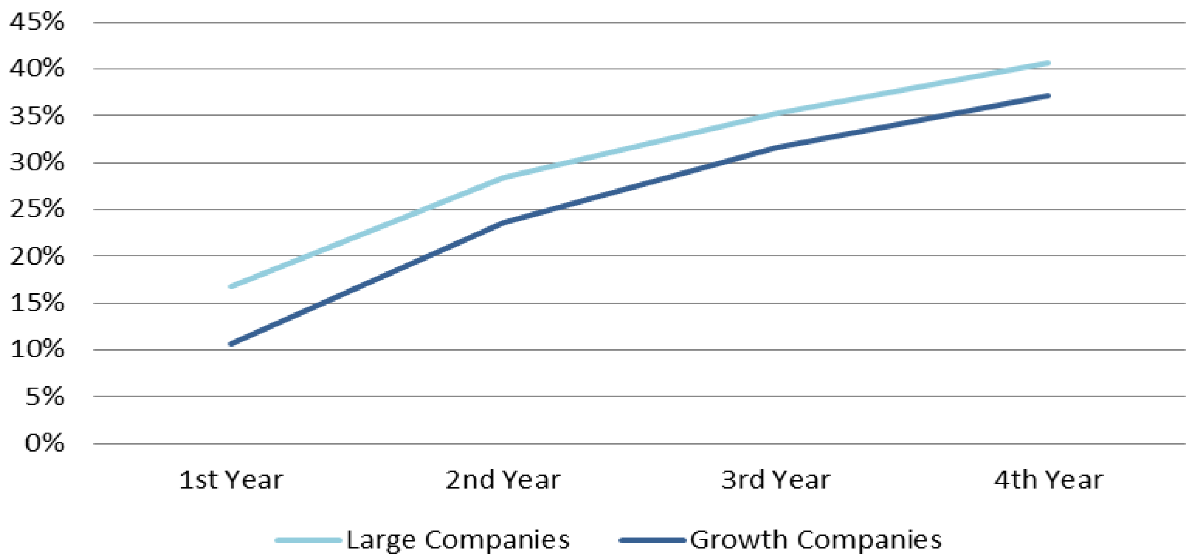


Source: Thomson Reuters, OECD calculations.

- Every year since 2000; total SPO amount > total IPO amount.
- In 2009, companies from advanced economies raised a record level: USD 376 billion (12 x IPO).

Growth companies use of public equity markets (5)

Proportion of non-financial companies making an SPO following their IPOs



Source: Thomson Reuters, OECD calculations.

- Four years after the IPO, 37% of all growth companies and 41% of large companies had made an SPO.
- Once they are actually listed, small and large companies have similar access to public equity markets.

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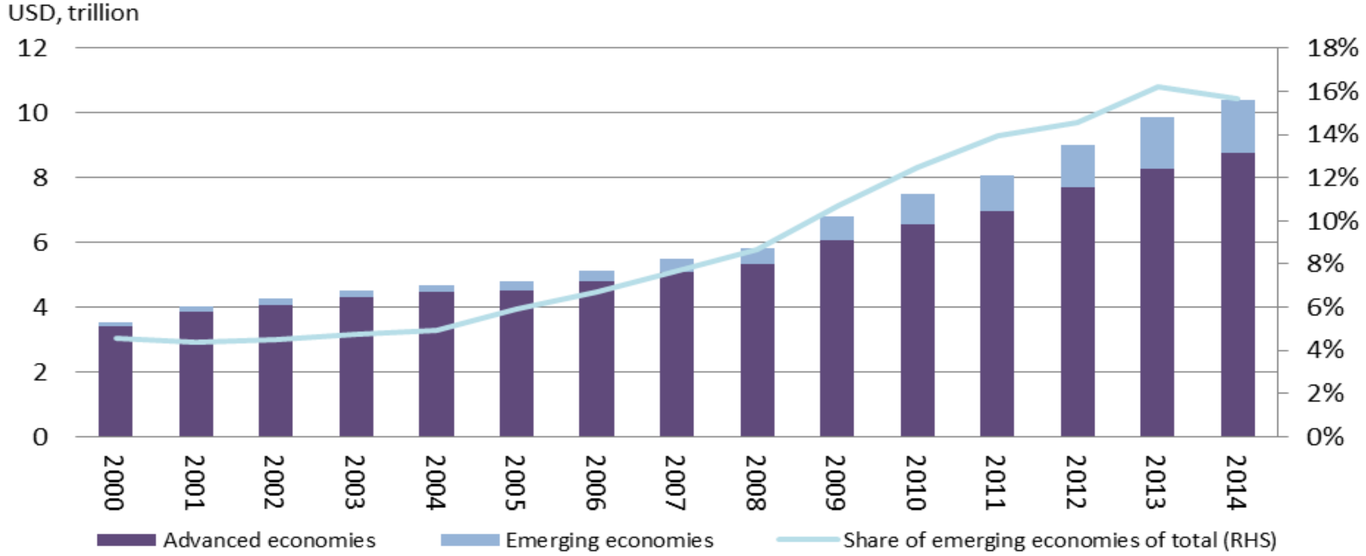
Growth companies use of corporate bond markets (1)

Outstanding amounts of non-financial company corporate bonds

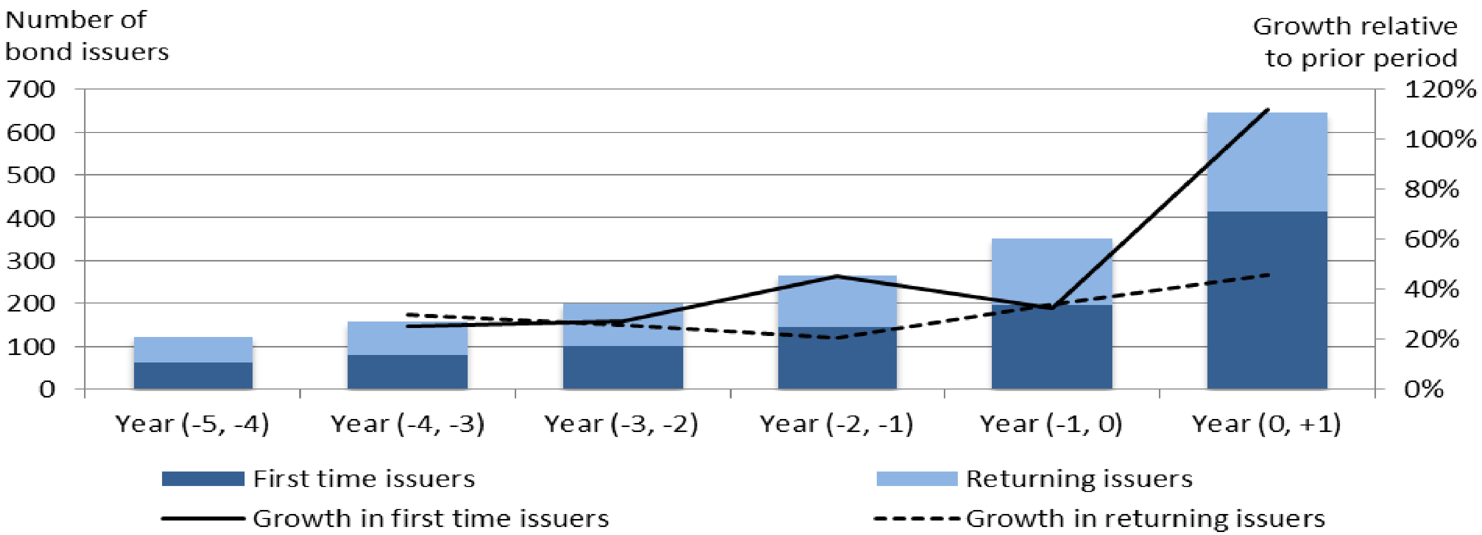


Source: Thomson Reuters, Bloomberg, OECD calculations.

- Advanced economies: USD 3.4 trillion in 2000, USD 8.8 trillion in 2014.
- Share of emerging market companies:
  - 2000: 5% (USD 162 billion)
  - 2014: 15% (USD 1.6 trillion)

Growth companies use of corporate bond markets (2)

Number of IPO firms issuing bonds around the IPO Date

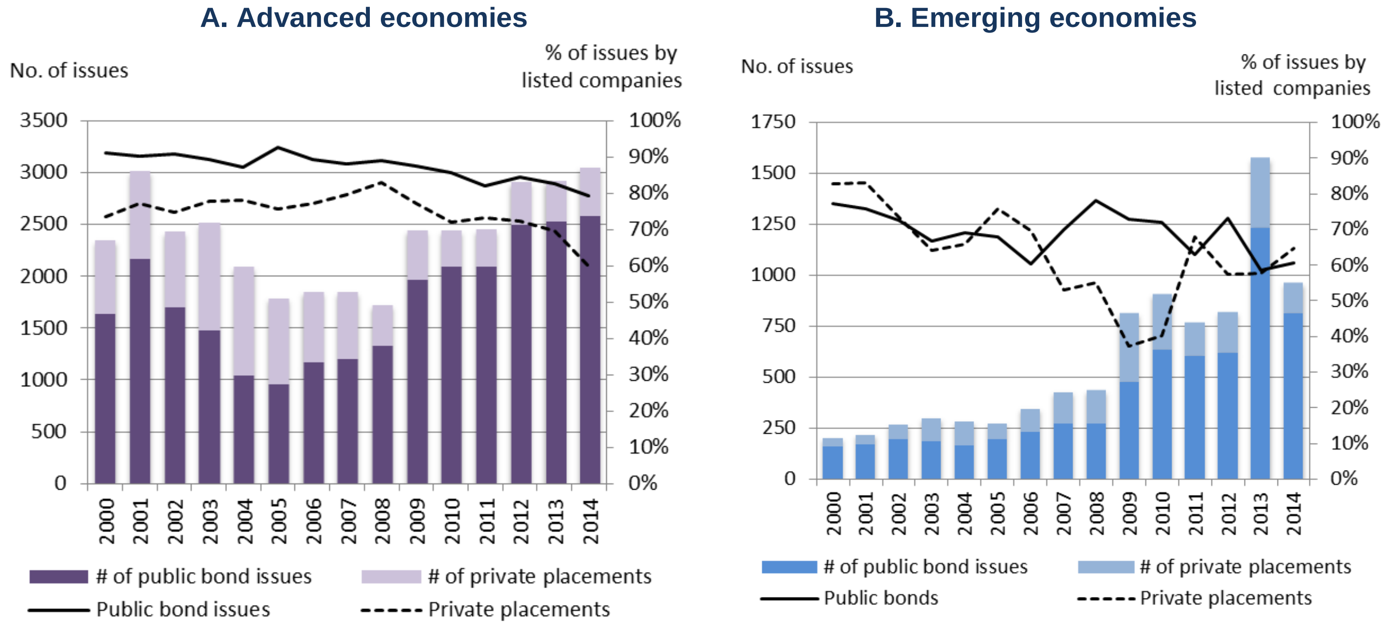


Source: Thomson Reuters, OECD calculations.

- Illustrates the number of IPO companies that issued a corporate bond during the 5 years prior to their IPO date and 1 year afterwards
- During the period leading up to the IPO date, the number of first time issuers increase successively.
- In the year immediately following the IPO, there is a 112% increase in the number of first time issuers.

Growth companies use of corporate bond markets (3)

Status of corporate bond issuers: listed vs. private



Source: Thomson Reuters, OECD calculations.

- Listed companies dominate bond issues.
- On average, almost 87% of public bond issues in advanced economies and 70% in emerging markets are made by listed companies or their affiliates.

Why does corporate governance matter?

- Growth companies require long-term patient capital for investment.
- It is essential that they have access to capital markets, particularly public equity markets.
- In order to get access to public equity markets they need to meet investor expectations with respect to corporate governance practices.
- Once the company has improved its corporate governance standards the company has reached a new level of institutionalisation, which provides it with new opportunities, not least with respect to capital market access and financial flexibility.

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Thank you for your attention!

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