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Patterns of international capital raisings☆

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ABSTRACT

This paper documents several new patterns associated with firms issuing stocks and bonds in foreign markets that motivate the need for and help guide the direction of future research. Three major patterns stand out. (1) A large and growing fraction of capital raisings, especially debt issuances, occurs in international markets, but a very small number of firms accounts for the bulk of international capital raisings, highlighting the cross-firm heterogeneity in financial globalization. (2) Changes in firm performance following equity and debt issuances in international markets are qualitatively similar to those following domestic issuances, suggesting that capital raisings abroad are not intrinsically different from those in domestic markets. (3) Firms continue to issue securities both abroad and at home after accessing international markets, suggesting that international and domestic markets are complements, not substitutes. Existing theories do not fully account for these patterns.

1. Introduction

Financial globalization has reshaped international and corporate finance over the last two decades. About 30% of all capital raised by firms through stock and bond issues over the period 1991–2005 occurred in securities markets outside their home countries. Obstfeld and Taylor (2004) show that a historically unprecedented percentage of the world's financial capital now flows across international borders. Furthermore, the amount raised by firms in foreign markets has grown almost four-fold since 1991, approaching one trillion U.S. dollars in 2005.

Yet, basic questions about the internationalization of capital markets remain incompletely answered. Why do firms sell stocks and bonds in foreign markets? What are the effects of issuing securities in foreign markets on firm performance? What are the cross-firm distributional effects from international capital raisings? The lack of firm-level information on equity and debt issuances in both foreign and domestic markets limits our understanding of the causes and effects of financial globalization at the macro and micro level.

To help address these questions, we provide the first documentation of several salient firm-level patterns associated with international capital raisings. First, we illustrate the characteristics of firms that raise capital through the issuance of equity and debt abroad and document how these firms differ from both firms that only raise capital domestically and firms that do not issue securities locally or internationally. We analyze numerous firm-level characteristics, including firm size, growth, investment, profitability, capital structure, and corporate valuation. Second, we show what happens to firms after issuing equity or debt abroad and compare these patterns to firms that raise capital domestically. Third, we compare how firms use domestic bond and equity markets before and after they internationalize. Rather than testing hypotheses or formulating new theories, we contribute to the literature by documenting new patterns and relating them to existing theories. As a result, our research both advertises the need for and helps guide the direction of future research.

To analyze the firm-level patterns associated with international capital raisings, we construct a new database. The dataset includes 168,513 equity and debt issues in domestic and international capital markets, conducted by 45,969 firms from 116 countries, and covers the period 1991–2005. We match these data with comprehensive information on firm balance sheets and income statements for 38,801 firms.

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Three broad categories of findings emerge from our analysis. We first summarize the findings and then relate them to existing theoretical and empirical work on capital raisings and international financial integration.

First, a large and growing fraction of capital raisings, especially debt issuances, is conducted in international markets, but only a small proportion of firms actually uses international markets, and of this small fraction, a very small sub-sample accounts for the bulk of international capital raisings. Of the total capital raised through security issuances in capital markets in 2005, firms from developing and developed countries raised, respectively, 51% and 39% outside their home countries. This share is higher for debt than for equity issues. Debt issuances abroad accounted for 35% of the total amount raised through debt issuances in capital markets over the period 1991–2005, while equity issues abroad represented 10% of total amount raised through equity issues over the same period. Furthermore, about 15% of the almost 46,000 firms that issued any securities in public markets during our sample period accessed international markets, and only one-tenth of these firms (less than 700 firms) collected about two-thirds of all the funds raised internationally. Finally, firms raising capital abroad are larger, slower growing, and more leveraged than firms that only raise capital domestically.

Second, changes in firm performance following equity and debt issues in international markets are qualitatively similar to those that follow the issuance of securities in domestic markets. Whether firms issue securities in domestic or international markets, they tend to become larger and experience a decrease in their growth rate and profitability following capital raisings. These patterns suggest that issues in international markets are not intrinsically different from those in domestic markets. Furthermore, the differences between firms that raise capital abroad and those that only issue securities domestically exist many years before firms actually access international markets.

Third, although issues abroad tend to be significantly larger than issues at home, firms (1) continue to issue securities in both international and domestic markets after accessing international markets and (2) increase the amount of money raised in domestic markets after internationalizing. In particular, for firms from developing (developed) countries, the median issuance in international markets is about 18 (two) times larger than the median issuance in domestic markets. Furthermore, firms do not opt out of domestic markets once they internationalize. To the contrary, while continuing to use international markets, firms significantly *increase* their capital raisings at home. For example, following internationalization, the typical developed country firm more than triples the average annual amount raised in domestic markets, increases the amount raised domestically relative to assets, and also captures a larger fraction of the total capital raising activity in its domestic market.

Our findings relate to three theories of the causes and effects of international capital raisings. First, the segmentation view argues that firms internationalize to circumvent regulations, poor accounting systems, taxes, and illiquid domestic markets that discourage foreign investors from purchasing their shares (Black, 1974; Solnik, 1974; Stapleton and Subrahmanyam, 1977; Errunza and Losq, 1985; Alexander et al., 1987; Domowitz et al., 1998). Thus, firms internationalize to gain access to less expensive capital (Foerster and Karolyi, 1999; Miller, 1999). Second, the "bonding" view argues that firms internationalize to bond themselves to a better corporate governance framework that limits the extraction of private benefits by corporate insiders (Stulz, 1999; Coffee, 2002; Reese and Weisbach, 2002; Doidge et al., 2004). This makes firms more attractive to potential investors, reducing their cost of capital, and inducing an enduring improvement in firm performance. Third, the market timing view suggests that firms raise capital abroad to exploit temporarily high prices for their securities during "hot" markets (Errunza and Miller, 2000; Henderson et al., 2006).

While the patterns we document do not formally reject or confirm existing theories, they suggest that there are large gaps in the ability of these theories to account for noteworthy features of international capital raisings. For instance, the finding that the changes in firm characteristics following international capital raisings are qualitatively similar to those that follow domestic capital raisings are difficult to reconcile with the bonding view, which argues that capital raisings in international markets are intrinsically different from capital raisings in domestic markets and should therefore have qualitatively different effects on firm performance. Similarly, our finding that firms do not opt out of domestic markets after raising capital abroad, but actually increase their participation in these capital markets, does not fit the predictions of simple segmentation arguments that international markets offer unambiguously better services and/or less expensive capital than local markets (once firms meet the conditions required for going abroad). In terms of market timing, the argument that hot international markets for firms' securities are driving the decision to raise capital abroad does not fully explain why only very few firms actually raise capital abroad.

Furthermore, theories of internationalization and corporate finance need to account for three patterns associated with international capital raisings that are not the focus of existing research. First, debt markets tend to be more internationalized than equity markets. Second, firms that raise capital abroad are different from firms that only raise capital at home *before* they internationalize; these differences in firm characteristics do not emerge after firms internationalize. Third, firms raise capital in both international and domestic markets after accessing international markets. In sum, our findings indicate that current theories have substantive limitations in accounting for firm-level experiences and highlight directions for developing more precise theories of the internationalization process and its implications.

In addition, our paper extends several strands of empirical literature related to capital market internationalization. Henderson et al. (2006) analyze aggregate patterns of capital raising activity around the world and document how internationalization varies across security types and regions. We expand their work by analyzing the extent of internationalization at the firm level. Several other papers analyze the characteristics of firms that list their shares abroad, through either direct cross-listings or depositary receipts (see, for example, Pagano et al., 2002; Lang et al., 2003a,b; Claessens and Schmukler, 2007; Gozzi et al., 2008). In contrast, we focus on capital raisings, not on equity market cross-listings. Moreover, while most studies ignore debt issuances, we analyze both equity and debt markets. Indeed, we find that debt issues in public markets are a much more important source of capital for firms than equity issues, and debt markets are far more internationalized than equity markets.

This paper also identifies patterns relevant for the large corporate finance literature on the motivations for issuing debt and equity (see, for example, Loughran and Ritter, 1995; Pagano et al., 1998; Baker and Wurgler, 2002; DeAngelo et al., 2007; Kim and Weisbach, 2008). We contribute to this literature by tracing the evolution of firm characteristics, including capital structure, investment, and profitability, after firms issue debt and equity securities in domestic and international markets. These time-series patterns for a broad array of firms from around the world provide new evidence regarding the motivations for security issuances. Furthermore, the finding that firms issue debt and equity securities in both domestic and foreign markets following internationalization suggests that future research needs to account for these corporate financing patterns.

The remainder of the paper is organized as follows. Section 2 describes the data. Section 3 documents the extent of internationalization of securities markets and analyzes the characteristics of those firms that raise capital abroad. Section 4 analyzes the evolution of firm characteristics and performance following capital raisings in international markets and compares these patterns to firms that only raise capital in domestic securities markets. Section 5 examines the international and domestic capital raising activity of firms that have accessed international markets. We conclude in Section 6.