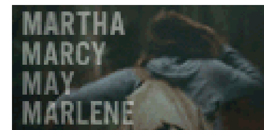
The New York Times Reprints

This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers here or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for samples and additional information. Order a reprint of this article now.



June 7, 2011

Fleeing to Foreign Shores

By GRAHAM BOWLEY

Reva Medical, a maker of medical devices in San Diego, wanted to go public last year to raise money to satisfy impatient venture capitalists and finance research for its heart stents.

But it found little investor interest in the United States for an early-stage medical device company that had not yet made a profit.

Reva Medical did what a small but increasing number of young American companies are doing — it looked abroad for money, in Reva's case the Australian stock exchange.

After an eight-month road show, meeting investors and pitching the prospects of a biodegradable stent, the 12-year-old company sold 25 percent of its stock for $85 million in an initial public offering in December.

"There are so many companies that require capital like our company, and they don't have access to the capital markets in the United States," said Robert Stockman, Reva's chief executive. "People are looking at any option to stay alive, which is what we did."

Reva's example shows that nearly three years since the financial crisis began, markets in the United States are barely open to many companies, leading them to turn to investors abroad. Denied a chance to list their stock and go public here, they are finding ready buyers of their shares on foreign markets.

Nearly one in 10 American companies that went public last year did so outside the United States. Besides Australia, they turned to stock markets in Britain, Taiwan, South Korea and Canada, according to data from the consulting firm Grant Thornton and Dealogic.

The 10 companies that went public abroad in 2010 — and 75 from 2000 to 2009 — compares with only two United States companies choosing foreign exchanges from 1991 to 1999.

The trend reflects a decidedly global outlook toward stocks, just as the number of public companies in the United States is shrinking.

From a peak of more than 8,800 American companies at the end of 1997, that number fell to

about 5,100 by the end of 2009, a 40 percent decline, according to the World Federation of Exchanges.

The drop comes as some companies have merged, or gone out of business, or been taken private by private equity firms. Other young businesses have chosen to sell themselves to bigger companies rather than go public.

To be sure, as the economy improves and investors shaken badly by the financial crisis begin to regain their confidence, American stock markets may once again open up for companies trying to go public and listings may rise in the United States.

LinkedIn, the social networking site for business professionals, had a successful initial public offering last month on the New York Stock Exchange, and Groupon, the social buying site, has registered its plans to go public in the United States.

But these are big companies, enjoying the popularity of being Internet darlings. Executives and analysts fear that a long-term structural shift in American equity markets means these markets are now closed to legions of smaller, more ordinary businesses. They could more easily have gone public in the United States in the past. But they now remain private or, for the time being, have to market themselves overseas and rely on foreign investors.

For example, initial public offerings by American companies totaled only 119 in the United States last year, according to Dealogic — higher than the depressed rates of the previous two years but a far cry from the 756 companies that went public at the peak in 1996.

As young, fast-growing companies are forced to look overseas for public status and investors, executives and analysts fear that they may increasingly shift their geographic focus — and as a result any jobs they create will be abroad.

“Issuers have to put themselves through a grinder to go overseas, so any significant percentage of overseas listings is a sign that our markets have become hostile to innovation and job formation,” said David Weild, a former vice chairman of the Nasdaq stock exchange and a senior adviser to Grant Thornton.

A variety of factors explain each company’s decision to list on a foreign exchange, like the increased regulatory costs of going public in the United States. Underwriting, legal and other costs are typically lower in foreign markets, companies say.

The Alternative Investment Market, or AIM, a part of the London Stock Exchange intended for small company listings, is a popular destination for some American companies. The cost of an initial public offering there is about 10 to 12 percent of total capital raised, compared with 13 to

15 percent on Nasdaq, according to Mark McGowan of AIM Advisers, which helps American companies list on AIM.

In addition, the extra annual cost of maintaining a public listing, including complying with Sarbanes-Oxley rules, can be typically much higher in the United States: $2 million to $3 million each year depending on the size of a company compared with a cost as low as $320,000 on AIM or $100,000 to $300,000 in a market like Taiwan, according to advisers.

There are concerns that some foreign exchanges attract companies because their oversight may be less stringent. But companies insist standards are high.

A more important factor than cost, said Sanjay Subhedar, managing director of Storm Ventures, a California venture capital firm, is that investors in the United States who traditionally participate in I.P.O.'s and the banks that underwrite the offerings are no longer interested in share sales by small companies.

Institutional investors like mutual funds want the liquidity of larger offerings with abundant buyers and sellers, he said; bank underwriters want to focus on the more lucrative fees that bigger deals generate.

One of the companies he invests in, Integrated Memory Logic (iML), of Campbell, Calif., last year became one of the first non-Taiwanese companies to list on the Taiwan Stock Exchange. A supplier of semiconductor chips for LCD screens, it raised $40 million with a 10 percent sale of the company after the exchange changed its rules to allow foreign companies to join.

Integrated Memory Logic, which had a work force of 60 when it went public, has since added a handful of engineers in the United States but also another 40 employees in Shanghai, Taipei and Seoul, South Korea.

“Because of the nature of the industry, large mutual fund companies and investment banks don't want to do an offering of less than $100 million,” said Mr. Subhedar. “This means unless the company has a market size of $500 million, you can't really go public in the United States. We were in the $250 million to $350 million range.”

Another reason to go abroad, some American businesses like HaloSource of Seattle are discovering, is that investors in the United States may not be as interested as foreign investors in companies whose growth potential is strongest overseas.

HaloSource makes water purification devices for use in American pools and spas but also for drinking water in countries like India, China and Brazil. Last year, it had an $80 million initial public offering on AIM. One reason it chose London, according to James Thompson, chief

financial officer, was that investors there were more sympathetic to growth opportunities in emerging markets. "Though it is a smaller capital market than New York, AIM is much more globally focused."

For some companies like HaloSource, the move to a foreign exchange may make longer term strategic sense as their growth shifts away from America to markets like China and India. Integrated Memory Logic's biggest suppliers of the wafers for its semiconductor chips and its biggest customers are in Asia — so a listing in Taiwan raises its profile in a region that is already home to most of its corporate partners.

Another company, Samsonite, the luggage company that was founded in Denver in 1910 but shifted its corporate location to Luxembourg in 2009, now sees most of its growth coming from Asia. It plans a $1.5 billion offering in Hong Kong next week.

The attraction of an Asian listing will be underlined further this month when Prada, the Italian fashion house, lists its shares in an offering that could generate $2.5 billion, also in Hong Kong.

But while some companies see their foreign I.P.O. as a long-term move, others see it as an interim step, one that after further expansion could lead them to seek investor interest back home and a dual listing in the United States.

One reason Reva Medical chose Australia was that country's system of research hospitals that it intends to use for its clinical trials.

Mr. Stockman, the chief executive, also sits on the board of another company, HeartWare International, based in Massachusetts and Florida, that carried out an Australian I.P.O. in 2005, and then listed on Nasdaq in the United States in 2008.

In its Australian I.P.O., Reva sold stock to investors from Britain, Australia and Hong Kong, as well as America.

Mr. Stockman said two Wall Street investment banks told him there was no interest in an offering of the company in the United States. Instead, he found an underwriter, Inteq, in Australia. In the end, the cost of the Australian listing was $7 million, roughly what it would have cost Reva to list in the United States, he said.

One of the biggest costs was travel time and flights. He concedes that he would have preferred to list in the United States in the first place — after all the traveling back and forth to Australia, and the long road show in Asia, the United States and Europe.

"All things being equal, it would have been easier," he said. "It is a long way."