



## ANALYSING DIFFERENT STOCK EXCHANGES WITH A VIEW TO AN IPO

Abdumannapov Tokhir

MSc Ўзбекистон Республикаси Банк-молия академияси

<https://www.doi.org/10.5281/zenodo.10020560>

### ARTICLE INFO

Received: 12<sup>th</sup> Oktober 2023

Accepted: 18<sup>th</sup> Oktober 2023

Online: 19<sup>th</sup> Oktober 2023

### KEY WORDS

*IPO (Initial Public Offering), NYSE, Security and Exchange Commission, Market Cap, SPAC (Special Purpose Acquisition Companies), IFRS (International Financial Reporting Standard), SOX (Sarbanes Oxley Act), stock exchange, investor, regulator.*

### ABSTRACT

*Selecting the appropriate stock exchange for an Initial Public Offering (IPO) is a crucial decision that can greatly influence a company's future path in the financial markets. This initial statement emphasizes the importance of thoroughly analyzing different stock exchanges. The examination will involve analyzing factors like market liquidity, regulatory environments, and historical performance to provide businesses with the necessary knowledge to navigate the intricate IPO landscape. Having a deep understanding of various stock exchanges becomes essential for informed and strategic decision-making as companies contemplate going public.*

### Conduction of an IPO in different foreign stock exchanges

The securities market plays a crucial role in market relations, serving as a vital indicator of a country's economic state. This highlights the significance of the functioning of the financial market in the overall development of a nation's economy. One key element of the modern market economy is the stock market, which holds the potential to gather investment resources for promoting economic growth, fostering scientific and technological advancements, and driving innovation.

An IPO has emerged as a prevailing method to allure foreign capital in today's era. This process enables companies to secure funds for operational needs, foster expansion, and fulfill debt obligations. Furthermore, an IPO affords an opportunity for investors to sell their shares, while simultaneously providing the company with a means to repay their supporters. Typically, privately held firms with substantial growth potential contemplate going public primarily for the aforementioned reasons. Such a decision is often the logical and expected next step for successful startup companies.

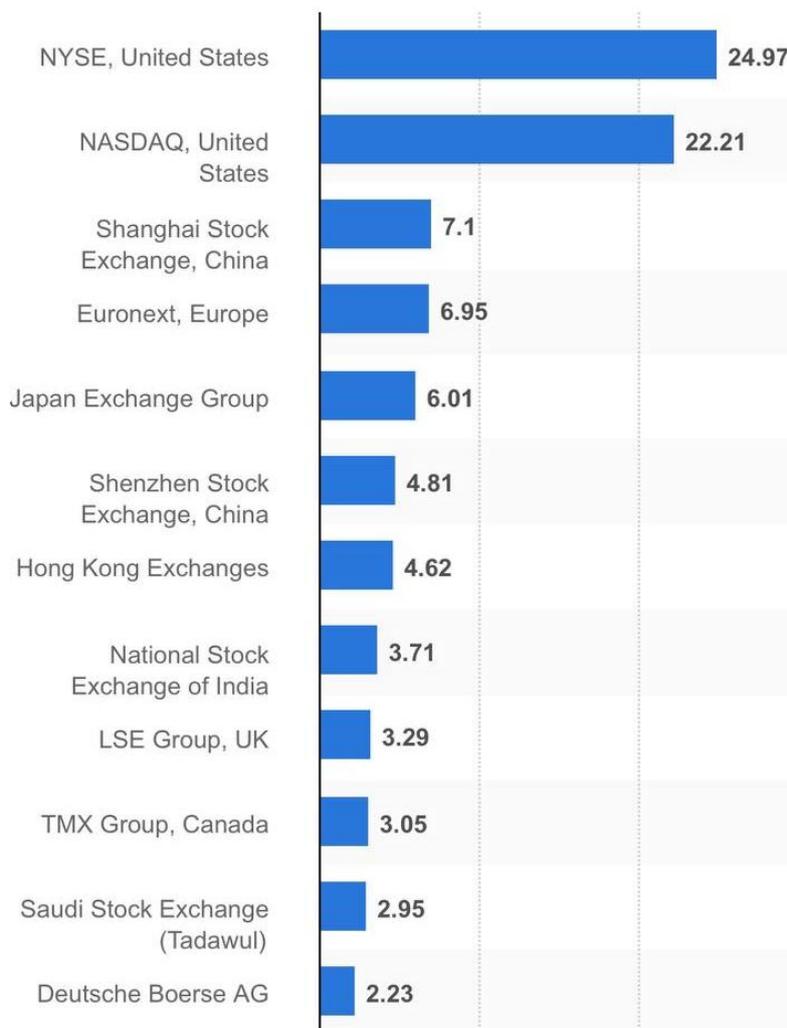
### Analysis of Initial Public Offering in foreign stock exchanges.

To ascertain the most significant and suitable stock exchanges for further investigation, we will undertake a comprehensive analysis. We will begin by examining the global stock exchanges in their entirety, with the objective of identifying the ones with the highest levels of activity. Subsequently, from this pool, our focus will shift towards selecting those exchanges



that boast the largest aggregate market capitalization of the listed companies. These selected exchanges will form the initial set for our subsequent examination. Subsequent to this, we will assess the exchanges that encompass the greatest number of Initial Public Offerings involving foreign capital, as well as the ones that yield the highest volume of proceeds from such offerings. In the subsequent stage, we will scrutinize and eliminate from consideration the exchanges that lack or only occasionally provide shares of foreign companies, hence restricting accessibility for foreign investors. Once the analysis concludes, we will unveil the top five exchanges that have successfully met the aforementioned criteria, which we will elaborate upon in the following discussion.

Currently, there are about 120 stock exchanges in the world, of which 60 are the largest. At the same time, in 2023, the top 10 exchanges in terms of capitalisation of listed companies amounted to 75,04 trillion US dollars as for 27th of September of 2023. Considering the world's largest stock exchanges in 2023 by market capitalisation of listed companies, it is worth noting that the top 5 exchanges are the New York Stock Exchange (NYSE), Nasdaq, Shanghai Stock Exchange (SSE), Japan Stock Exchange (JPX) and Shenzhen Stock Exchange (SZSE).

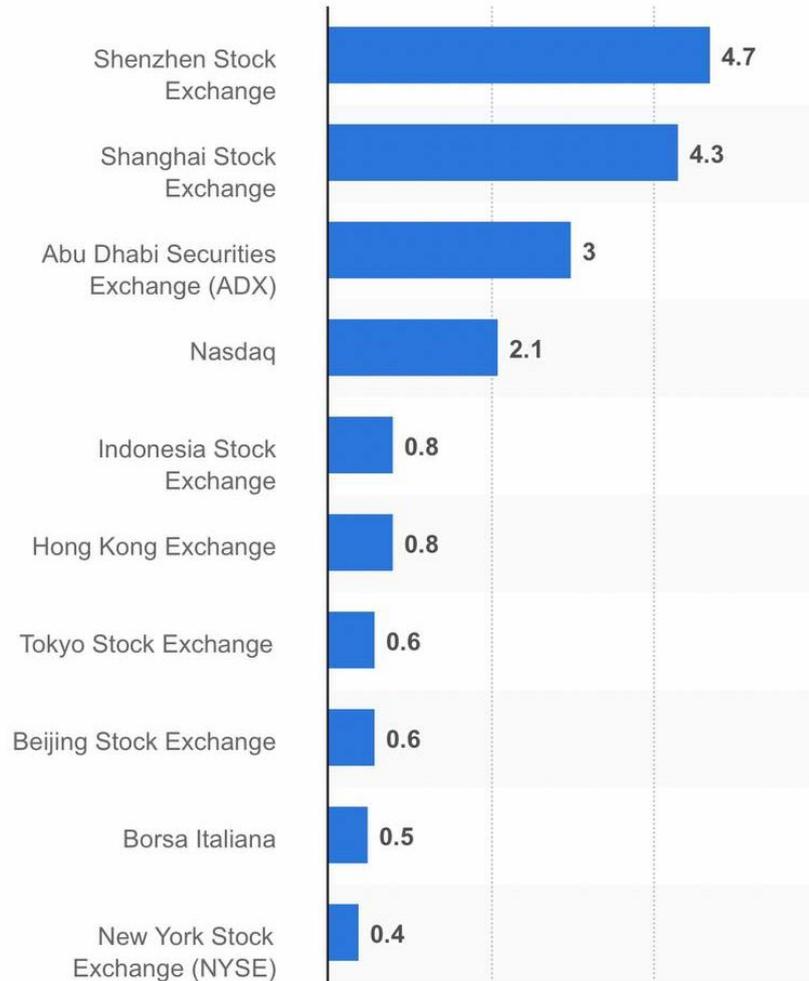


(Picture 1.) Represents the largest stock exchange operators worldwide as of September 2023, by market cap of listed companies *in trillion U.S dollars*



Thus, the New York Stock Exchange is currently the largest stock exchange in the world, with a market capitalisation of just over \$24.3 trillion as of September 2023.

However, when analysing in terms of IPOs, it is also worth analysing exchanges based on the number and proceeds from IPOs. The NYSE is not even in the top 5 exchanges in terms of number of IPOs. Shenzhen Stock Exchange (SZSE), Shanghai Stock Exchange (SSE) Abu Dhabi Stock Securities Exchange (ADX) and Nasdaq leading the way.



**(Picture 2.) Indicates Leading 10 stock exchanges in terms of IPO proceeds of IPO delas worldwide in 1st quarter of 2023 in billion U.S Dollars**

As for the New York Stock Exchange, there are more than 2,400 listed companies. The average daily trading volume on the markets is 123 billion USD, making it one of the largest and most prominent sources of capital in the world. That is why public offerings in the United States provide international companies with perhaps the best-in-class market standard, giving them attention from investors and investment bank analysts that they may not receive elsewhere, and unprecedented brand awareness.

Next, it is worth considering Hong Kong Stock Exchange (referred to as HKSE). Hong Kong has been the world's number one IPO market for seven of the last twelve years. This success in attracting global issuers and investors is a testament to the opportunities available in Asia's most dynamic and vibrant capital market.



Hong Kong's IPO market slowed down in Q2 and Q4 2022. IPO issuance in Hong Kong declined compared to 2021 and proceeds fell by 15 per cent, which excluded Hong Kong from being a leading IPO destination as it was in 2021. This was due to increased regulation and financial penalties on some technology companies, as well as disappointing results in the secondary market, which made investors cautious about valuations.

However, with an increasingly developed ecosystem for the development of innovative and new economy companies, the new listing regime for foreign issuers should facilitate dual primary and secondary listings of US-listed Chinese concept shares, while the listing regime for Special Purpose Acquisition Companies (SPACs) will help attract some de-SPAC listings, which could be high-growth businesses in Asia-Pacific or privatised Chinese concept shares in 2022-2023.

The main advantages of listing on the Hong Kong Stock Exchange:

- Hong Kong is uniquely positioned as an intermediary between China and international markets. This provides exceptional advantages, especially for international companies that find it more difficult to access the more rigorous but incredibly lucrative Chinese market.
- Stock Connect is an investment channel available to Hong Kong-listed companies that directly links the Shanghai Stock Exchange with the Hong Kong Stock Exchange. Through this channel, investors in each country can trade on the stock market of the other country. This means that investors in mainland China can purchase eligible shares listed on the Hong Kong Stock Exchange through their local broker, while Hong Kong and international investors can purchase eligible shares listed on the Shanghai Stock Exchange.
- Hong Kong and international investors can purchase eligible shares listed on the Shanghai Stock Exchange also through their local broker.
- Hong Kong has access to an extremely diverse pool of global investors, potentially leading to a more liquid market.
- Hong Kong has access to an extremely diverse pool of global investors, potentially leading to a more liquid market;
- Hong Kong can conduct IPOs of any size and ensure investor demand to price a successful transaction, including IPOs of giant companies;
- Hong Kong further attracts technology companies registered in other countries, including giant companies.

Hong Kong has an active secondary listing market in Hong Kong;

- Hong Kong has an active secondary market providing a highly liquid, safe and efficient platform for refinancing and hedging;
- Hong Kong's international corporate governance requirements are among the most stringent, resulting in transparency, accountability and international investor confidence in Hong Kong listed companies.

### **Leaders and outsiders in initial public offerings of companies with foreign capital attraction**

Over the past few years, IPOs have become an increasingly important source of financing for the development of companies, raising billions of dollars. At the same time, IPOs confirm the growing competitiveness of countries that are successful in this market. For this reason,



the following analyses the IPO market by major regions and countries, as well as by major stock exchanges. Below we analyse the regions of North and South America, Asia-Pacific, EMEA, USA, China, Brazil, South Korea and Hong Kong based on the main market development trends, the largest initial public offerings, stock exchange information, offering volumes, company reports and other indicators.

## **Analysis of external and internal factors affecting initial public offerings of companies' shares**

A variety of factors can contribute to the activity and performance of IPOs around the world. At present, analysing these factors is important, especially given that more than half of this year's US IPOs are trading below the offer price, according to data compiled by Bloomberg, suggesting that offerings are not particularly successful.

Based on the above, it can be concluded that for a successful initial public offering it is important, among other things, to have investors who are in demand for certain shares. In addition, it is investor activity that often determines how high a company's valuation will be in the IPO process.

Thus, in order to analyse internal and external factors, it is additionally worth classifying them into demand factors and supply factors. Demand factors refer to the demand of investors for shares, i.e. factors that explain the choice of shares of a particular company. Supply factors, in turn, imply the supply of shares, i.e. the factors that explain the choice of the place of placement and its implementation.

In the initial stages of preparing for an IPO, a company needs to select the exchange on which it plans to list its shares. Hence the first set of factors that affect IPOs are the rules that govern how the securities market operates and how the IPO takes place. The regulator (e.g. the SEC in the US) checks whether a company is complying with the requirements and provides a list of necessary documents and conditions for listing. It is worth bearing in mind that it is the company's internal factors, such as revenue, potential capitalisation, number of years of audited accounts, compliance with environmental and other regulations and others, that determine the extent to which a company can IPO on a particular exchange. At this stage, if a company is still in the process of selecting an exchange or location for an offering in general, the requirements and terms of the offering can be used to understand whether the exchange is suitable and, having analysed recent offerings, what its core profile is.

Based on the stock exchange where a company places its shares, a certain image of the company is formed, an initial understanding of its specifics, size, focus of activities, etc. In addition, the importance of the chosen exchange and the country of placement is that in different locations the securities market infrastructure is at a different level of development, which implies both certain rights, obligations and the number of investors and market participants in general, as well as the number of legislative acts and their depth. It is important for a company to determine at an early stage whether it will be able to fulfil all current regulatory obligations on the chosen exchange, bearing in mind that such requirements may be more stringent on certain exchanges or in certain jurisdictions than in others.

It is often in developed markets where the greatest number of IPOs take place, and where there is also a wide range of companies, investors, available instruments and offering



vehicles. Investors on certain exchanges may be more favourable to companies operating in certain countries and may give them a higher valuation depending on the level of industry regulation applicable to companies in that country.

In addition, it is also worth noting that the stock exchange on which the initial public offering takes place is also important in terms of the investor's confidence in the company, willingness to buy its shares, and the extent to which they will comply with various regulations that are important to the investor.

The Sarbanes-Oxley Act (SOX) was introduced in the US in 2002. This law tightened reporting and corporate governance standards and lengthened the initial public offering process.

Today, many executives tend to underestimate the effort required to comply with SOX and overlook the fact that SOX preparation can prepare a business for future success. Demonstrating SOX compliance sends the message that an organisation is not taking a 'growth at all costs' approach and understands how to prioritise risks, establish sound internal controls and implement a robust financial reporting system.

SOX-ready organisations often demonstrate that they understand how to prioritise risks and know what it takes to establish sound internal controls. These steps often serve as a springboard to IPO success. Thus, legislation plays a major role in both the IPO process and its subsequent success.

A special mention should be made of international reporting standards and their impact on the initial public offering process. Companies that have adopted IFRS experience a significant increase in market liquidity, partly due to improved disclosure resulting from the adoption of IFRS.

It is also worth highlighting that an important factor is the frequency of legislative changes in the country of offering, as this directly affects the entire IPO process as well as the stability of the environment.

When considering the market and valuations, it is worth mentioning such external factors as the overall economy of the offering region, inflation, GDP growth rates, interest rates, taxation, political stability, the level of development of the country, and others. These have a direct impact not only on the IPO as a whole, but also on the decision to list.

In the next stage of IPO preparation, the main factor influencing the offering is the investors themselves. For example, well-informed analysts and investors can contribute to successful capital raising and secondary market development. Some exchanges also have market participants with a deep understanding of companies in particular sectors. In different markets, investors may be interested in different industries, stages of business development, and may have different attitudes to risk. In some industries or jurisdictions, investors may favour companies that are narrowly focused on a core revenue-generating service or product over those that offer a broad range of services or products. Such investor preferences, which may change over time, may influence a company's structuring decisions early in the listing process.



There are other players that influence initial public offerings. There is a very close link between a good underwriter and the outcome of an IPO. If an underwriter has a good reputation in the market, it can attract more investors and, accordingly, the reputation of the underwriter is very strongly linked to the long-term performance of the IPO in the market.

In particular, underwriters play a leading role in determining the value of an IPO by examining the importance of institutional investors, who signalling the quality of the company. Institutional investors serve as a signal of a company's quality, and they only invest in companies that are transparent and have the best prospects. This can help to increase the transparency of companies after listing if the companies are roughly fairly valued.

Thus, it can be concluded that the most popular among companies going public is often the home market, but still a large number of companies seek to make an initial public offering in a large global market such as the United States. The second strong player in this market is China. At the same time, the Chinese market is rather closed for both foreign companies and foreign investors. European stock exchanges are not as popular as the above-mentioned ones, but listing there has recently become quite popular among companies. There are a large number of both external and internal factors affecting IPOs. Internal factors are important, the main ones being a leading market position supported by clear and achievable strategic goals for revenue growth and profitability; an attractive financial model with an established quarterly forecasting process and robust financial reporting controls; a suitably qualified, experienced and proven management team; and a sound corporate governance system. In addition, external factors such as securities market regulation, exchange requirements for the offering, economic, political and social factors in the offering region, market trends, investors and underwriters play an equally important role in the IPO process and valuation.

## References:

1. (The business of Investment Banking | Wiley Online Books. Available at: <https://onlinelibrary.wiley.com/doi/book/10.1002/9781119202332> (Accessed: 03 October 2023).
2. NYSE Listing Process (NYSE Listings Process & Requirements. Available at: <https://www.nyse.com/listings-process> (Accessed: 03 October 2023).
3. 'IPO location, pre IPO performance, post IPO performance' (2010) Proceedings of the 17th Annual European Real Estate Society Conference - Milan, Italy [Preprint]. doi:10.15396/eres2010\_229.
4. Strumeyer, G. and Swammy, S. (2017) The Capital Markets: Evolution of the Financial Ecosystem. Hoboken, NJ: John Wiley & Sons, Inc.