



*A PR Newswire and OTC Markets Group White Paper*



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## Why are some European companies with securities traded off exchange disappointed by the lack of penetration and volumes of trades among US investors? And by contrast why are some so markedly successful in gaining a bigger US investor presence on their register?

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Over 400 European issuers have securities such as depository receipts, F shares or listed equities traded in the US. They come from across the industry spectrum, with banks leading the way, but with recent increases in issuers from the construction, retailing and pharmaceutical sectors.

Those disappointed may look at the size and trading volumes of active equity assets under management in North America, and ask why *their* programmes are not successful in winning the support of this huge market. Why have they not gained the support of US investors to diversify their shareholder base, or gained greater volume in their US traded security?

So what distinguishes well traded and well supported programmes from the rest?

In our view, part of the answer is regular, systematic communication of the company's equity story by those successful European companies, targeted towards relevant US investors.

### Rules, rules, rules

The absence of clarity about the minimum levels of communication doesn't help. Since the advent of Rule 12g32(b), permitting foreign private issuers, (aside from just the filing of annual and Interim reports) under certain conditions to rely on their *domestic* disclosures to inform US investors, we have seen some European companies failing to look at the opportunity to communicate fully with the US markets.

Off-exchange traded companies in the US, which include more than 2,000 international companies, are subject to various compliance restraints, such as State [Blue Sky Laws](#), [SEC "Penny Stock" Rules](#), and FINRA's [Know Your Customer](#), [Recommendation](#), [Suitability](#) and other Rules. In 2007, the OTCQX marketplace was launched to provide compliance solutions for the global companies that trade on OTC Markets Group's marketplaces.

The distribution of material news by US domestic peers is already very extensive. US regulations require issuers to reach out to US investors and influencers through the media, ensuring that all investors have simultaneous access to this news.

The distribution of financial news by many European companies in the US by contrast has not widened sufficiently to allow US investors fully to understand company performance. More worryingly, *non financial* news, such as events building up the understanding of the strategy and the investment proposition, let alone governance focussed detail, is not shared proactively with investors in the way that US peers regard as standard. Whereas the equity story, branding and business model might be well understood in, say, Paris, it may not be familiar to portfolio managers in Boston, or New York.

## Changing audiences

The US market for equities is the world's largest, with independent sources showing \$13.3 trillion in equity assets under management in North America, around 60% of those managed globally. Over 3000 US fund management firms invest *outside* the US. In North America there are \$516 billion of non-North American holdings held in the form of depositary receipts, a 45% increase since 2008. This includes \$44 billion in the level 1 ADR's.

In summary, this adds up to the world's largest target market for international companies seeking to expand and diversify their non domestic shareholder base. Defined in more detail on page 5, it also creates a major audience for companies' investor communications.

However, the nature of the *audiences* to whom the company's equity story should be told has undergone radical change. We see a shift in the active/ passive balance. The increasing pressures on the 'closet trackers' – seeking simply to track an index while charging the fees of truly active managers - is leading to legal challenges. Companies seeking to focus their resources on genuinely active funds, are struggling to create effective targeting programmes.

At the same time, markets are recognising the extent of the advisory chain. Discretionary asset management is growing, and increasingly adding to the target lists. And on both sides of the Atlantic, the ways in which positions are taken and managed involve increasing use of derivatives, borrowing and lending, short selling and ETF's. All of these have created new audiences to be influenced.

And of course communications must be aimed at the 90 million individual investors in the US.

Their desire to invest when they are looking at a blank news screen on Yahoo Finance or Charles Schwab, is very limited, making them an essential part of the audience. There are huge numbers of web publications and platforms providing advice to private investors; many of these sites highlight the risk of non communication by foreign companies. Ensuring that this key audience is part of the IR plan is critical.

Greater shareholder engagement with quoted companies has been one of the key themes in corporate governance to emerge since the financial crisis. Many investors now have dedicated teams, seeking to understand the governance story, the management and of course executive compensation. And the ever growing influence of the proxy advisory firms has created an audience for the company's governance messages.

This also lies behind the recent upsurge in activist investing in the US amid growing demands by long-term institutions for greater input. Total assets under management held by activist funds have doubled since 2010. And in the past five years activists have launched campaigns at more than one-fifth of S&P 500 firms. With the unprecedented amount of cash being held by quoted companies, and the consequent risk of activists wishing to tell them what to do with it, this is unlikely to ease off.

The recent rise in M&A is also creating new challenges for the IR team. With deals increasingly being paid for in stock, the value of a transaction can be significantly enhanced: if the equity story is widely understood by the market as a whole.

These changes all create sets of new audiences who must benefit from receiving the company's financial, equity and governance story.

## **Changing messaging - story telling matters**

**T**hese changing non domestic audiences have created a need for broader messaging around the business model, the basis on which the company makes money. US investors have become very used to receiving a detailed analysis through the MD&A of the key drivers of the company; a European company not providing similar analysis is likely to struggle to win the attention of US investors.

Similarly, with the rise of governance concerns and the focus on executive compensation, investors have been used to seeing explanations of both the detail and policies underlying awards.

## **Corporate access and research changes**

**E**urope and the US are also seeing a perfect storm of major changes in how investors and companies can meet. Stewardship and engagement are top of regulators' agenda, who want to oblige investors to pay closer attention to meeting the companies in whom clients' assets are being invested. This is increasing focus on how these meetings should be arranged - and funded.

At the same time, the market is anticipating wide-ranging reforms of the way in which investment research is paid for – reforms that will most likely be enshrined, Europe-wide, in a forthcoming EC directive, Mifid II. After more than a decade of procrastination, the financial authorities are about to order the full “unbundling” of research costs from dealing commissions. Currently, the ultimate investors in, say, a pension fund, pick up all the costs of producing bank and broker research as part of the trading commission paid when a fund manager makes a market transaction.

The role of the sell side in producing this research is under review, likely threatening the creation of research on some lesser known and less traded companies, making commentary on European companies scarcer still.

These changes are expected by many to lead to a significant fall in the research produced by banks and brokers, especially those outside the major indices, or their national markets.

**These changes occurring to audiences, the stories they need to hear and understand, and to the infrastructure of the markets themselves, mean that companies need to consider a much broader approach to investor communication.**

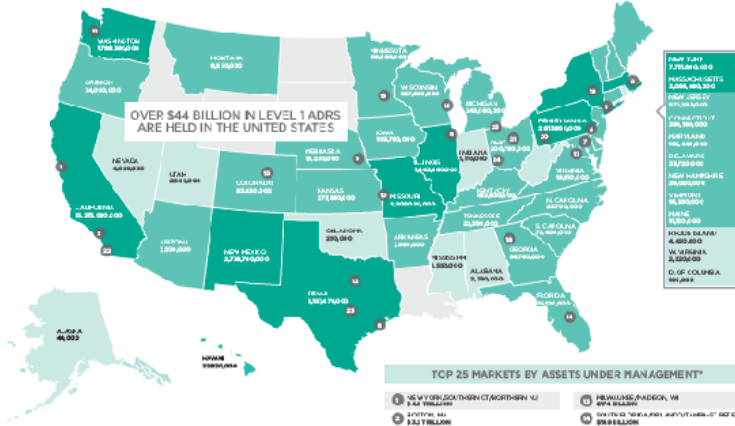
# The opportunity

## THE U.S. OPPORTUNITY AND THE GLOBAL IRO

THE U.S. IS THE LARGEST MARKET FOR CONSUMPTION OF FINANCIAL INFORMATION\*



\*Source: Burton-Taylor International Consulting annual data as of 2012



With access to the large pool of institutional investors, investment advisors, and broker-dealers located in the U.S., global IROs can increase their company's visibility, expand their global liquidity, and diversify their shareholder bases.



**44.6%** AMERICAN INVESTORS ACCOUNT FOR 44.6% OF GLOBAL MARKET DATA CONSUMPTION.

- Bloomberg: \$1.37 Billion (45%)
- Thomson Reuters: \$1.67 Billion (35%)
- UFC: \$615 Million (69%)
- Factset: \$502 Million (68%)
- S&P Capital IQ: \$419 Million (69%)
- Moody's Analytics: \$355 Million (65%)

\*Source: Burton-Taylor International Consulting annual data as of 2012

Company information and news is distributed across major financial portals, which receive more than 90 million visits from investors each month.

- Bloomberg
- CNBC
- CNN Money
- Fidelity
- Financial Times
- The Motley Fool
- MSN Money
- Dealers
- Wall Street Journal
- Yahoo Finance

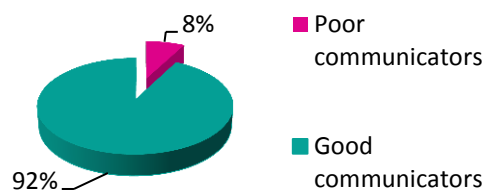
**OTC Markets**

A full scale version of this opportunity map can be viewed at <http://bit.ly/1xo0Bd4>

To take full advantage of these opportunities, companies must find solutions to the communication issues identified.

In our view, many of these issues can be addressed by a broader dissemination of the company's equity and governance story, through the tried and tested media in the US. It is no longer enough to use local, or even pan European, media to comply. Communicators have to look at how best the story can be spread further to US audiences.

### Average Trading Volumes French issuers with US Traded ADRs



Source: Yahoo! Finance / Charles Schwab

A regular, systematic flow of news, properly delivered through media trusted by investors, will build trust and confidence, and develop traction in the DR traded on the OTC markets.

### It's good to talk

PR Newswire conducted a study of 40 French issuers with US traded ADRs, to determine the effect their communications habits had on their trading volumes. Of these issuers, approximately a third were considered communicators to the US investment audience, issuing at least 6 press releases per year under the ADR ticker. Yet the average daily trading volumes for these communicators over the past 90 days as at the date of publication are 12 times higher than those without a clear communications strategy for the US audience. *Indeed, of the non-communicator group, a full 42% showed average volumes of less than 5,000 trades per day, despite an average*

market cap of \$7 billion. It is clear from these results that an engaged audience can have a significant impact on the success of an ADR programme.

## How to achieve this?

Reaching these multiple audiences, with their different needs for timing, means of delivery, and levels of detail is far from easy.

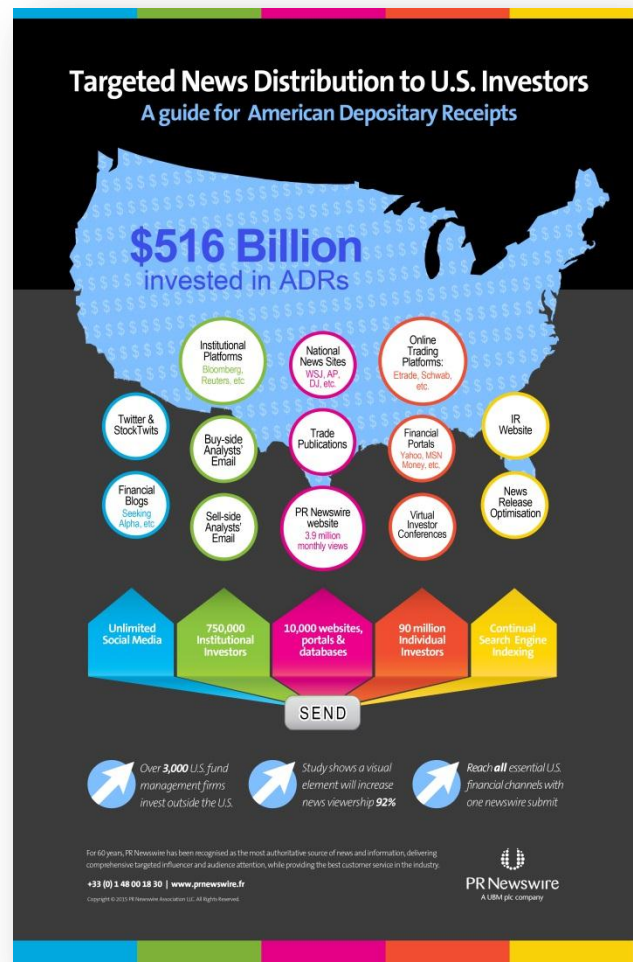
Some investing institutions are wedded to their market data screens; others to the target company's website, trusted as a direct source.

Media analysis and commentary is vital to some, while many use the social media to widen their understanding of public perception, and to increase their chances of a unique view.

Video plays an increasing role in virtual road shows, in major transactions and to create a broader understanding of remote manufacturing and production capabilities.

And reaching the 90 million US retail investors is essential – best achieved through their trading platforms, virtual conferences and the media.

And today's press release is more than text.



The days when a press release was simply an ASCII block of text, distributed on screens or printers are long over.

Research by PR Newswire shows that the fastest growing category of press release combines:

- **A US-focused IR website (microsite)** – a stand-alone mini website or cluster of pages acting as a discrete entity. This might provide editorial content and keywords allowing for greater chances of search engine inclusion, specifically helping investors understand in more depth elements of the company's strategy.



### Multimedia News Release (MNR)

- 1: Video segments - Host and stream high quality videos
- 2: Social sharing - Each MNR is tagged for social media sites
- 3: High-Resolution Images - The photo gallery allows you to host images that are ready for sharing with influencers, bloggers and webmasters
- 4: Drive traffic to your content - Add up to five links to supporting content, including HTML and PDF files
- 5: Fully Branded HTML5 Microsite
- 6: Tell your story - A full post of your release is built into the page
- 7: Make it social - Incorporate your Twitter or Facebook content directly into your MNR

- To achieve the maximum impact, this is combined with a multimedia news release.

Here's how it works. Text news releases and multimedia assets are distributed throughout the US to audiences including institutional and retail investors, the sell side, and other audiences tailored to the company's industry sector. This may include a call to action to encourage readers to contact your organisation's IR department.

A relevant photo is displayed on the Reuters Billboard in Times Square, video footage is posted on YouTube and other video portals with an audience over 30 million users.

Investors, the sell side, governance and environmental analysts can get special access to download your multimedia collateral in the form of MPEG-2 files.

## Conclusion

With growing numbers of European companies competing for access to US capital, not only with other international companies, but domestic US companies too, it has never been more critical to expand investors' understanding of your equity and governance story.

The changing and expanding audiences mean that reaching out on a broadcast basis is the most practical and cost effective way to creating a buzz about what the company has achieved.

This will ensure that the company's traded equity, derivative, or depository receipt receives the support it deserves.

And today, in 2015, the tools to achieve this outreach have never been more productive. Filling those blank screens with your story has never been easier.

## Further reading

The following case studies provide background information on two French companies traded on OTCQX:

Danone case study: <http://bit.ly/1CGExhh>

Publicis case study: <http://bit.ly/1B83sdN>

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## About OTC Markets Group

OTC Markets Group ([www.otcmarkets.com](http://www.otcmarkets.com)) operates three U.S. public marketplaces – OTCQX®, OTCQB®, OTC Pink® – for 10,000 U.S. and global securities, representing an aggregate market capitalization of \$13.6 trillion and annual dollar volume of more than \$230 billion. The three marketplace designations reflect the quality and timeliness of a company’s disclosure, informing investors about opportunity and risk. OTCQX, OTC Markets Group’s best marketplace, offers the most transparent and efficient trading of established, global and growth companies. The OTCQB venture marketplace is for entrepreneurial and development stage U.S. and international companies. OTC Pink is an open marketplace for broker-dealers to electronically trade all types of securities without requiring company involvement. OTC Pink securities include foreign companies that limit disclosure distribution to their home market, penny stocks and shells, as well as distressed, disconnected, and dark companies.

More than 2,000 global companies are cross-traded in the U.S. on the three marketplaces, comprising approximately 69% of the total dollar volume. Because of limited distribution of their corporate and financial information to the U.S. market, many global companies are thinly traded and lack visibility with U.S. investors. The lack of transparency creates restrictions on trading for U.S. broker-dealers due to State Blue Sky Laws, SEC “Penny Stock” Rules, and FINRA Know Your Customer, Recommendation, Suitability and other Rules.

In 2007, the OTCQX marketplace was launched to provide solutions for global companies interested in providing U.S. investors with a comparable information and trading experience to NYSE or NASDAQ without the cost and complexity of listing on a U.S. exchange. OTCQX companies meet high financial standards, provide timely disclosure of corporate information in the U.S., and are sponsored by a third-party professional advisor. The demonstration of standards and verification of information enables OTCQX companies to provide greater access to information and trading for U.S. investors by lifting broker-dealers restrictions designed for riskier securities.

Today, more than 350 companies ranging from global blue chips, including AXA (OTCQX: AXAHY), BNP Paribas (OTCQX: BNPQY), Danone (OTCQX: DANOE), Publicis Groupe S.A. (OTCQX: PUBGY), Technicolor (OTCQX: TCLRY) and Technip (OTCQX: TKPPY), to established growth companies trade on the OTCQX marketplace in the U.S.

## About PR Newswire

PR Newswire ([www.prnewswire.co.uk](http://www.prnewswire.co.uk)) is the leading global provider of PR and corporate communications tools that enable clients to distribute news and rich content across traditional, digital and social media channels in real time with full actionable reporting and monitoring.



Producing, optimising and targeting news and content across the world's largest multichannel distribution network and offering the most accurate and frequently updated opted in journalist databases for over 60 years PR Newswire has a truly global reach serving clients across EMEA, India, the Americas and Asia-Pacific.

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