

# STRATEGIC RESEARCH

## THE 144A REVOLUTION

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### EXECUTIVE SUMMARY

The U.S. Securities and Exchange Commission (SEC) Rule 144A allows securities in the U.S. to be privately placed amongst Qualified Institutional Buyers (QIBs), without the prerequisite of public registration. In the current economic climate, raising capital has become a major challenge but the 144A market remains a major lifeline between the U.S. capital market and non-U.S. issuers. With U.S. public offerings falling out of fashion, the focus has switched to the 144A market, which has attracted a growing number of companies looking to access the capital markets because in comparison, it is both cheaper and faster. The market itself has been growing in strength, equipped with thousands of QIBs, accompanied by an immense pool of capital for companies to tap into.

Non-U.S. companies can trade in this market via Global Depository Receipt (GDR) programs under the Regulation S/Rule 144A structure, with shares traded in the European markets (London or Luxembourg) and/or through private placement with QIBs in the U.S. marketplace. Our analysis of this component of the 144A market over the last five years suggests the following:

- The total value of equity raised has more than doubled to \$5.5bn in 2007 from \$2.3bn in 2003 (with \$11.7bn raised in 2006).
- On a regional level, GDRs from Central & Eastern Europe (mostly Russian) dominated activity (68%) in 2007. Over a five year period, North Asia had the highest average (48%).
- Over the years, there has been a shift in demand from North Asia (mostly from Korea & Taiwan) to Central & Eastern Europe.
- Sector analysis suggests that in 2007, the real estate sector dominated activity (31%), followed by banks (30%). Over a five year period, TMT had the highest average (21%). closely followed by banks (16%)

The 144A market is undoubtedly growing in popularity. This can be attributed to Sarbanes-Oxley legislation, resulting in higher regulatory costs and litigation risk for those companies who wish to raise capital from the U.S. public market. Consequently, the number of foreign company delistings has more than doubled from 12 in 1997 (representing just 3.9% of all foreign listed companies) to 30 in 2006 (6.6% of all foreign listed companies).

Finally, confidence in the 144A market has been expressed by the major underwriters who have addressed the issue of insufficient pricing and liquidity fragmentation with the development of their own trading systems. Furthermore, there has been consolidation between NASDAQ and 12 investment banks under a "Portal Alliance" umbrella, with the goal of developing an industry standard facility in order to serve the market for 144A securities.

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