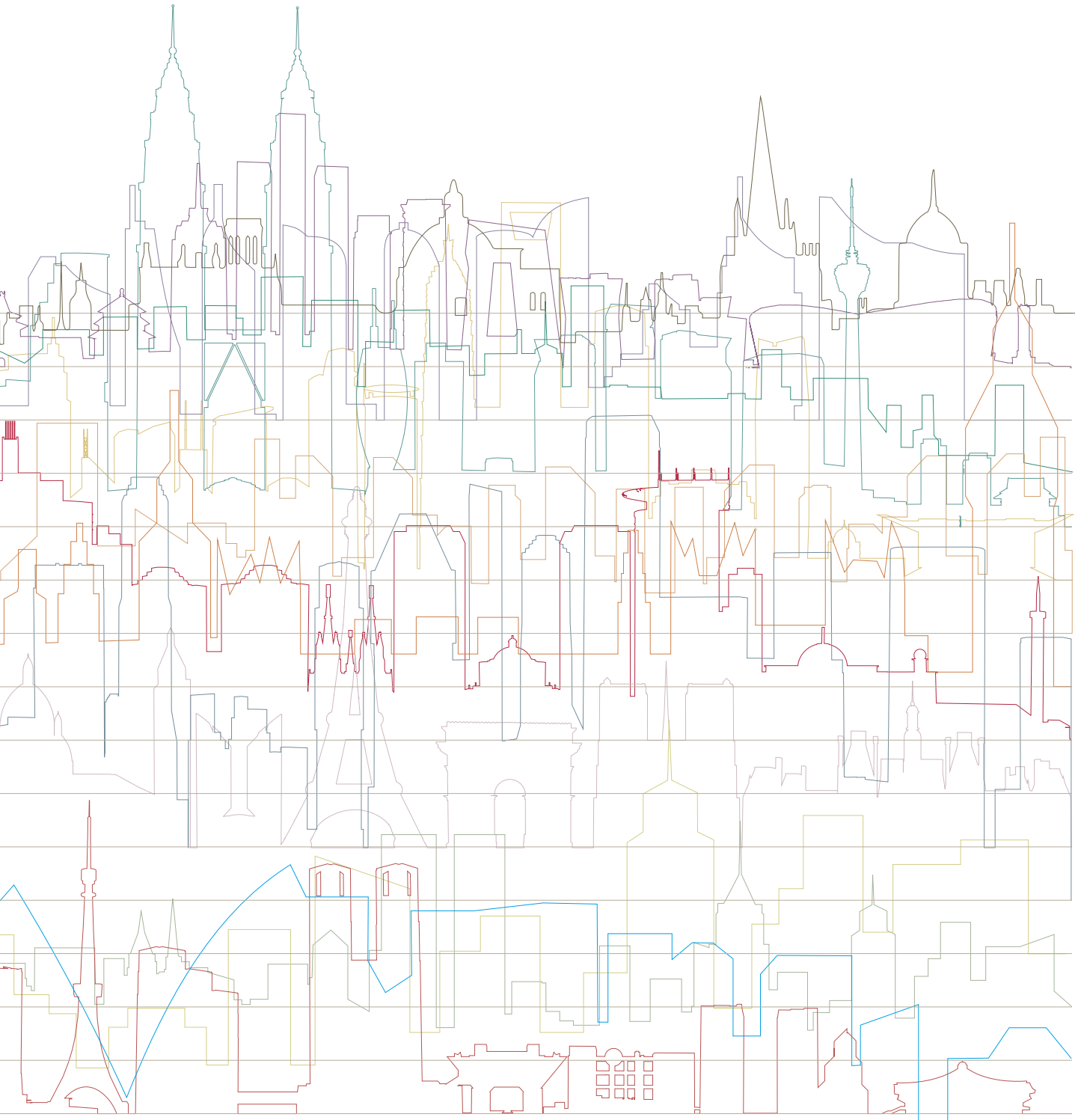




OTCQX: INVESTOR RELATIONS KEY IN A PANDEMIC



Recent market turmoil

With the ensuing disruption from the pandemic, it is vitally important that investor relations teams at internationally traded companies, have the tools and resources to engage and market to new potential investors in order to expand their shareholder base in the most cost-effective manner. Transparency with shareholders and allowing ease of access to corporate disclosure, is of even more importance during a corporate crisis or wider market turmoil. While a company may have existing US investors, there are many funds, family office and retail investors that rely on US brokers to trade during US market hours and are unable or unwilling to trade direct in home markets. Providing access for these US investors allows companies to enhance their reputation, diversify their shareholder base, and build liquidity in their US and home markets.

This paper provides insight and analysis into how OTCQX, the premium tier operated by OTC Markets Group, offers a platform for international issuers to meet their investor relations needs and seamlessly reach a wider US shareholder base in a transparent manner without large incremental costs. The paper cites a number of benefits that trading on OTCQX can generate through the current and any subsequent market crises.

The outbreak of the Covid-19 pandemic at the start of 2020 and the subsequent global lockdown has had a significant impact on market performance and volatility. It has threatened the survival of many international companies as their operating business and financial performance were adversely affected. The first half of this year was the most volatile on record, with global markets falling heavily during the first quarter followed by a rebound in performance. Figure 1 below presents the performance of global indices during the course of the year. The figure highlights the extreme volatility that emerged.

OTCQX is designed for established, investor-focused international companies. Companies joining OTCQX have found their trading volumes and US ownership increase in part because issuers trading on the OTCQX Market are required to meet high financial standards, follow best practice corporate governance, adhere to regulatory and compliance laws and have an independent third-party sponsor. Currently over 450 companies trade on OTCQX, with two-thirds having a primary listing outside the United States. Notable international issuers that have decided to make OTCQX their market of choice include Roche, Repsol, EasyJet, Marks and Spencer and Tesco.

The benefits of OTCQX in a crisis

First, it is important to understand how a crisis can impact the underlying corporation and how companies have emerged following a crisis. A corporate crisis can strike at any time. Research by Oxford Metrica has found that there is an 80% chance that a company will experience an event that loses 20% of its value, over and above market movements, at least once in a 5-year period. Oxford Metrica,

recently analysed the most significant man made corporate crises since the 2008 financial crisis. Figure 2 presents the detrimental impact that crises had. The Value Reaction™ metric captures the impact on shareholder value, while controlling for market movements and idiosyncratic risk, thus it is a measure of alpha associated with such events. The figure shows that on average companies lose close to 5% of value 250 trading days post the onset of the crisis. This implies that on average there is significant reputational damage to a company when faced with a crisis and that on average the event will translate into a loss of value to shareholders.

However, some companies have been able to emerge from a crisis stronger and generate value for their shareholders, avoiding the value lost presented in Figure 2. Of these companies, the evidence found that on average 6% of value is created 250 trading days post crisis. Oxford Metrica's research has found commonalities among the group of companies that generated value for shareholders in crisis. Companies tended to have strong disclosure practices, promptly and effectively communicating with all stakeholders, pointing to the fact that in a crisis, communication is king. In a world where information flows through a variety of media and channels and is rapidly impounded into prices, stakeholders are holding management to higher levels of accountability and investors require high levels of transparency and disclosures. In a setting where information and noise levels are high, it is vitally important that investor relations executives have the tools and platform to communicate with their investors, especially when a crisis strikes. OTCQX can offer the tools to enable issuers to emerge stronger when a crisis strikes.

Communication with investors

One of the leading benefits that OTCQX can offer investors relations departments is seamless communication and efficient disclosure. OTCQX offers a cost-effective platform for investor relation teams to identify and easily communicate with US shareholders, whom they may not have been able to address previously. The high transparency and disclosure requirements of OTCQX allow US investors and market makers to easily access market and financial information on the international company. Furthermore, the host of corporate services OTCQX offers, including its virtual conferences, allows companies to easily address a large number of US investors, which is paramount when a crisis causes market confusion.

Reputation

In addition, Oxford Metrica's analysis highlights the importance of managing reputation as a strategic asset. Being able to manage that asset is of even more importance for investor relation teams in times of turbulence. OTCQX offers a platform that can enhance the reputation of international companies in the United States. OTCQX is recognised by the SEC as an established public market. Investors and brokers look for the OTCQX designation when researching and trading a security as an indication that a company meets high financial standards and follows strong disclosure processes. Managing reputation can help mitigate the initial and long-term effects of a crisis.

Cost-efficiency

One of the largest impacts that the pandemic has had on corporations is to their financial resources. Therefore, if investor relations teams wish to limit the impact on financial resources, it is of paramount importance that they seek cost-effective ways to communicate with investors. OTCQX is a cost-efficient market for an international corporation's shares to be traded in the United States. The reduction in annual costs relative to a full listing on a US national exchange can be significant, ranging from \$1 - \$2 million per annum. Knowing that their company shares can efficiently trade and without a drain on financial resources is extremely beneficial in a crisis.

Streamlined requirements

Furthermore, companies want to be assured that their US trading position will be maintained through the crisis. It is important that issuers can reassure their investors that their shares will continue to trade and will not be adversely impacted by any US regulatory or exchange requirements. To that end, OTCQX offers less burdensome market standards relative to a listing on a national exchange. Companies may leverage their local market disclosure (SEC Exchange Act Rule 12g3-2(b)) and there are no Sarbanes-Oxley and SEC Reporting requirements to trade on OTCQX, bypassing costly and duplicative NYSE and NASDAQ requirements. The greater flexibility that OTCQX companies have in regard to being able to continue to trade, even during unexpected market events, is immensely beneficial. International companies on OTCQX can be more assured, relative to the alternative of a full US listing, that they will be able to meet the price or financial requirements during a falling market.

Value enhancement

Overall, the overarching concern for IR teams and senior management of international issuers is limiting the value destruction to shareholders and maintaining the share price. There is evidence that there is value created for shareholders once an international issuer joins OTCQX. The impact on shareholder value was analysed and the value reaction to the event of an international firm joining OTCQX measured. Figure 3 presents the average value reaction from the respective issuer's home market after joining OTCQX. The figure highlights that on average 128 basis points of value is created for shareholders 180 days post joining. When an unexpected market event causes a selloff in global share prices, it is vital that company management is able to find other means of supporting the share price, the evidence suggests that on average OTCQX drives shareholder value. We hypothesise that due to the increased transparency, disclosure requirements and corporate governance practices required by OTCQX, a positive signalling effect is generated in the issuer's home market, translating to a reduced cost of capital and increased shareholder value.

Stability of shareholder base

In addition to the benefits listed above, during a crisis, international issuers want to be assured of the stability of a US investor base and continued liquidity in their shares on both the domestic and US markets. Oxford Metrica's

paper "*OTCQX: Increasing US Ownership*" found statistically significant evidence that international companies choosing to join OTCQX may on average increase their US ownership. The research indicates that US ownership for international issuers joining OTCQX more than doubles within a year of their admission. Furthermore, there are increases in subsequent years and this ownership base is sustained. This increase in ownership base provides a consistent and diversified shareholder base which can help provide stability during corporate crises with large drawdowns in the market.

Liquidity buffers

In addition, liquidity enhancements that OTCQX generates in a issuer's stock can help mitigate large swings in share price if investors choose to sell during highly volatile markets. Oxford Metrica's research provides evidence that joining OTCQX can enhance trading volume in a company's shares on its domestic market and in the United States. Hence, OTCQX provides a platform for an international company to increase its visibility not only in the United States but also in its home market. Enhancing liquidity will benefit company management, domestic investors and US investors in uncertain times.

OTCQX has continued to attract companies throughout the months after the pandemic took hold and lockdown set in. Figure 4 presents the number of new joiners to OTCQX by month. The figure shows that since the low of March there has been a significant increase in companies joining OTCQX, more than doubling between May and June and sustaining this increase. With lockdown limiting issuers' ability to reach out to investors in person, many companies are attracted to OTCQX and the services the platform provides to interact with investors virtually.

Conclusion

The extreme market volatility caused by the global pandemic should push investor relations executives, at international companies, to assess whether they currently have the tools and resources to best reach their US shareholders. In times of crisis, it is of vital importance for international issuers to communicate effectively with investors, allow high levels of transparency and enhance corporate disclosure. OTCQX provides a cost-effective platform for international companies to trade outside of their domestic market. The platform allows companies to diversify their US shareholder base and to communicate directly and efficiently with investors from the world's deepest pool of capital. This paper has highlighted the number of benefits that OTCQX can provide including effective communication with investors, enhanced reputation, reduction of burdensome listing requirements and a relative reduction in costs. Furthermore, the evidence suggested that joining OTCQX can create value for shareholders, enhance liquidity and generate a stable US shareholding which are all extremely beneficial when a crisis strikes.

In summary, investor relations is key in a pandemic and OTCQX provides a useful platform to engage and build visibility with potential investors and therefore adds efficiencies to investor relations programs.

FIGURE 1: Global equity market performance

SOURCE: Oxford Metrica

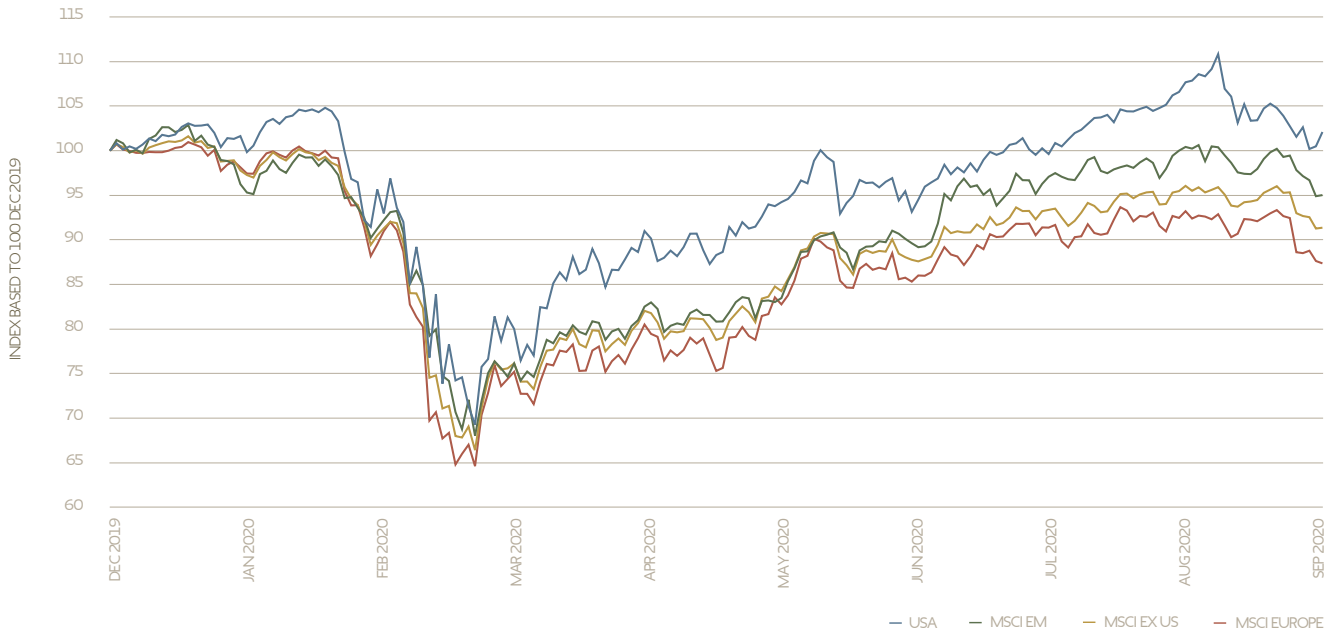


FIGURE 2: Impact of a crisis to an issuer

SOURCE: Oxford Metrica



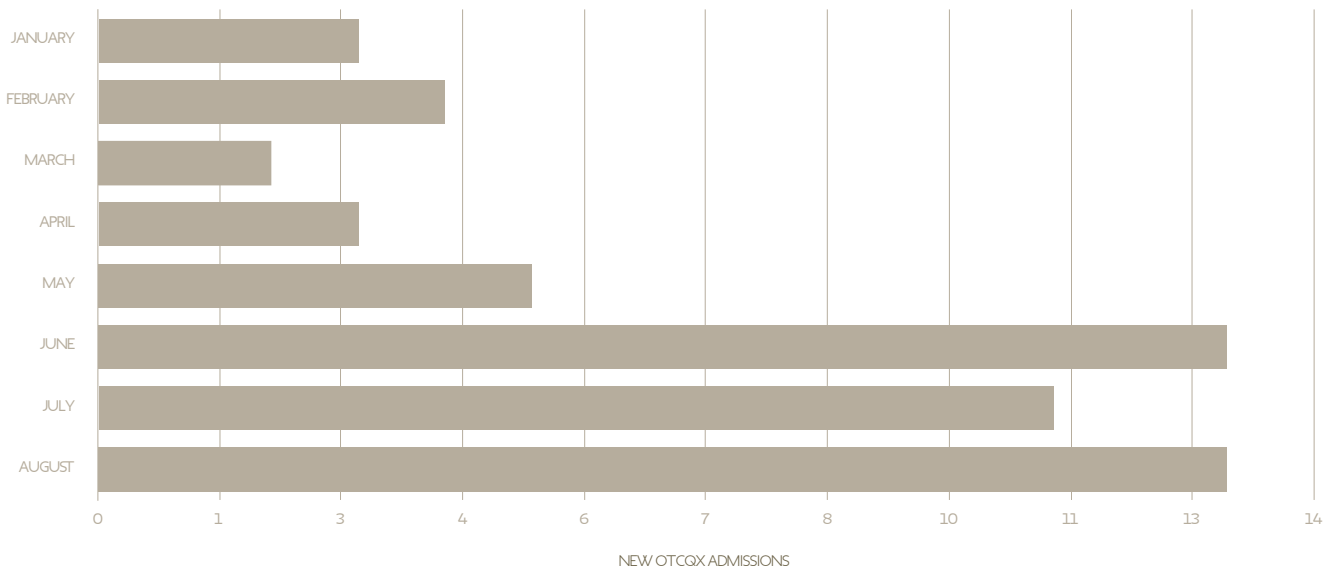
FIGURE 4: Value reaction in issuers' home market

SOURCE: Oxford Metrica



FIGURE 4: OTCQX new admissions by month

SOURCE: Oxford Metrica



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