

Birkenstock Holding PLC: Financial Markets Report and IPO Recommendations

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When organizations determine it is appropriate to enter the public sector of financial markets shares are distributed through the capital market in an initial public offering (IPO). Equity offerings allow investors, within financial markets, to easily exchange securities through the purchase and sale of stocks, bonds, and derivative contracts. As the markets have evolved over time large exchanges have been built across the globe to provide liquidity and enhance the process of exchanging securities between investors. This report thus aims to provide insight into the recently listed organization, Birkenstock Holding PLC (BIRK), and the globalized exchanges available to list shares for sale.

Birkenstock Holding PLC. (BIRK)

Birkenstock is an organization rich in heritage and history. Founded in 1774, the German based organization has expanded from a family-owned shoemaking business into an international leader in sandal and shoe manufacturing (Birkenstock Group, n.d.). Furthermore, Birkenstock Group (n.d.) currently operates 54 stores globally, with regional headquarters in both the United States and United Kingdom. After 250 years of experience in the private sector, Birkenstock has opted to approach the capital markets, seeking an asset valuation of \$9.2 billion (Gallagher, J. 2023). Birkenstock officially listed an initial public offering on the New York Stock Exchange in October 2023, with a current market capitalization of \$9.64 billion (Glickman, B. 2024).

Market Exchange Analysis

Due to the complexities of the financial markets system, it is imperative to provide an exchange analysis of financial markets worldwide. This analysis aims to provide empirical evidence into the structures of financial markets both domestically and internationally; the similarities and differences surrounding specific markets; and the barriers to entry surrounding

specific market exchanges. Used in conjunction with other management considerations, this report will assist the board of directors in identifying an appropriate market exchange for the initial public offering of Birkenstock Holding PLC.

Although many individuals are aware of major U.S. domestic exchanges such as the New York Stock exchange (NYSE) or NASDAQ many more exchanges exist domestically and internationally, which allow for the purchase and sale of securities by investors. Market exchanges allow for investors to meet in a centralized manner to conduct trades of securities (Mishkin, F. & Eakins, S. 2024). With modern technology updates, investors have been attracted to international markets, which assist in diversifying portfolios and mitigating risk of domestic downturns, in recent years (Mishkin, F. & Eakins, S. 2024).

While the largest worldwide exchanges are composed of American market exchanges, the Shanghai Stock Exchange, the Euronext Stock Exchange, and the Tokyo Stock Exchange are the largest contributors to the international stock market exchanges (Statista, 2024). Based on equity market capitalization, the New York Stock Exchange is the dominant contender in worldwide financial markets with an equity market capitalization of \$25 trillion The NYSE is followed by the Euronext Stock Exchange - \$6.89 trillion total market capitalization the Shanghai Stock Exchange - \$6.52 trillion total market capitalization, and the Tokyo Stock Exchange - \$6.15 trillion total market capitalization (Statista, 2024)¹.

While the domestic and international exchanges depict a broad view of investment opportunities, specific exchanges exist which are tailored to assist the trading of specific investment vehicles. To elaborate, the NYSE and London Stock Exchanges (FTSE) adhere to the

¹ Data obtained from Statista research Department. Information on total market capitalization is based on data from December 2023 and updated on February 13, 2024.

trading of corporate equities in the form of common stock while the Chicago Board of Options Exchange (CBOE) is specifically tailored to cater to options investors (Smart, S. & Zutter, C. 2020). Furthermore, over the counter (OTC) exchanges exist to assist in the transaction of smaller organizational equities, and government bond transactions (Mishkin, F. & Eakins, S. 2024). These markets assist to provide liquidity to investors by providing ease of transactions for the specific investment vehicles held and sought after (Mishkin, F. & Eakins, S. 2024). By providing liquidity, the exchanges assist with promoting supply and demand for securities, which indispensably assists in promoting a more efficient market (Mishkin, F. & Eakins, S. 2024).

Although exchanges provide added liquidity and assist organizations in meeting their financial needs, not all exchanges are appropriate for an organization. More prestigious exchanges, such as the NYSE, may be exceptionally restrictive in their requirements to list equities on an exchange (Smart, S. & Zutter, C. 2020). Listing requirements assist in ensuring only well established and independent firms can enter the public financial markets to acquire capital funding requirements while minimizing the effects of adverse selection and moral hazards.

Listing requirements for approval to broker markets include, but are not limited to, capital requirements, cashflow requirements, and minimum shareholder equity requirements. An organization who does not meet these requirements must seek an alternative exchange to list their securities on. The next two sections provide evidence on listing requirements for two major stock exchanges, the NYSE, and the FTSE.

Barriers to Entry: NYSE

Examining the NYSE, many restrictions may hinder an organization's ability to list equities on the exchange. To receive approval for an NYSE listing, an organization must have

met an earnings test, listed under SEC section 103.01, of aggregate recorded earnings of equal to \$10 million for the last three fiscal years (New York Stock Exchange [NYSE], n.d.).

Furthermore, section 103.01 outlines that an organization must also have an aggregate cashflow of greater than or equal to \$100 million, and a global market capitalization of at least \$500 million (NYSE, n.d.). In addition to cashflow and capital requirements, the NYSE (n.d.) dictates those seeking IPOs must currently have a minimum of 400 round lot shareholders and a minimum of 1.1 million public shares available for distribution.

Barriers to Entry: FTSE

Likewise, the London Stock Exchange has their own standards set forth for listing requirements. These requirements include an audit history minimum of three years, minimum market capacity of €700,000, sufficient working capital of at least 12 months, and adherence to corporate governance requirements (Price Waterhouse Coopers [PWC], 2016). While similar to the American markets, the London financial markets go a step further by providing greater detail in qualitative data requirements such as the outlines of corporate governance, and how quickly inside information is disclosed to the public.

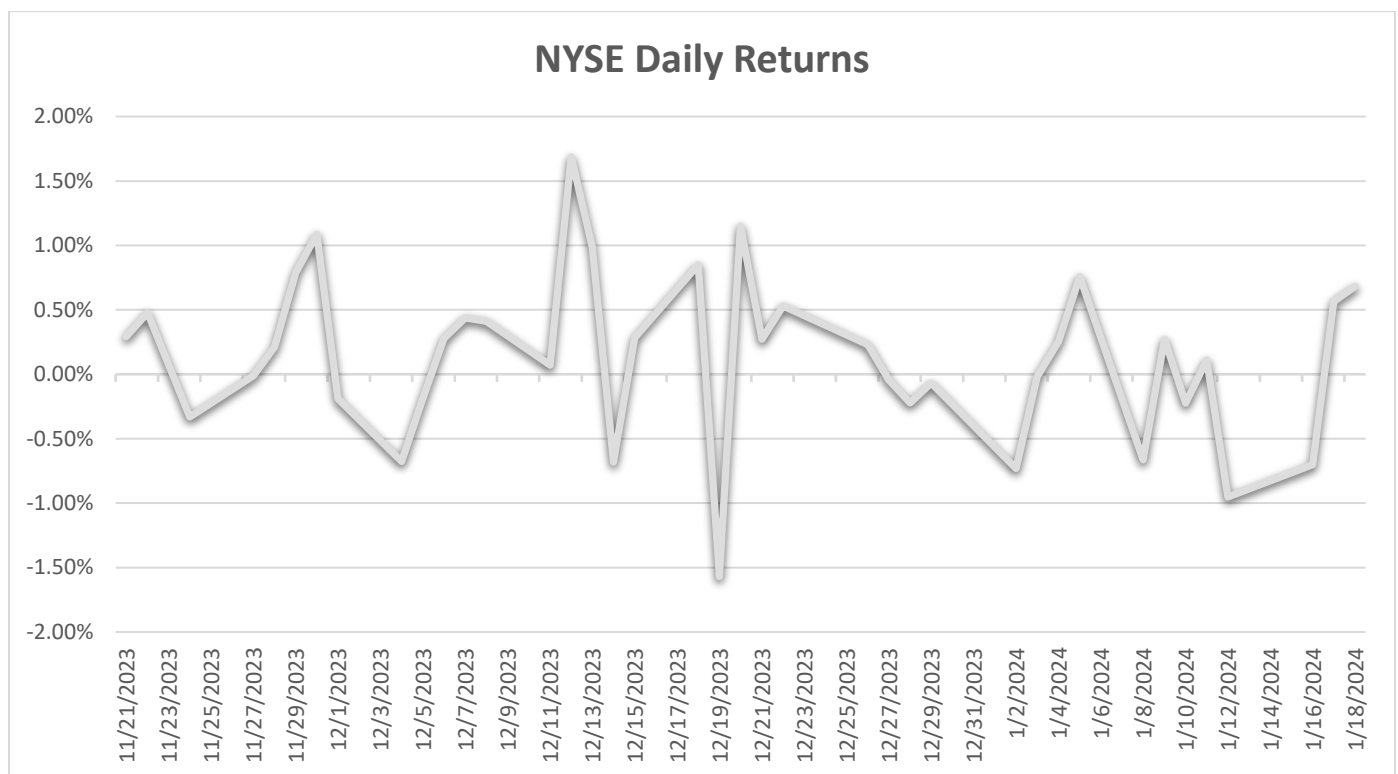
Market Performance Analysis: NYSE & FTSE

When considering appropriate exchanges to list securities on, an organization must consider that not all exchanges perform equally. To analyze market performance daily returns of the NYSE and FTSE empirical data was obtained from Yahoo! Finance and the London Stock Exchange website to calculate the average returns over a 60-day period beginning November 21, 2023, and ending January 21, 2024. To assess the effects of volatility in these exchanges, the standard deviation on both daily and monthly returns were calculated over a 60-day period to provide insights into the impacts of market risks and exposure to volatility. The NYSE

Composite index, which measures the performance of the NYSE, has incurred a growth of 5.5% with a daily standard deviation of 0.64% and a monthly standard deviation of 3.83% (Yahoo Finance, n.d.). In contrast, the London stock exchange, measured by the FTSE All-Share Index, has remained relatively flat, with a 60-day growth of -0.1% with a daily standard deviation of 0.55% and a monthly standard deviation of 4.58% (London Stock Exchange, n.d.).

Figure 1

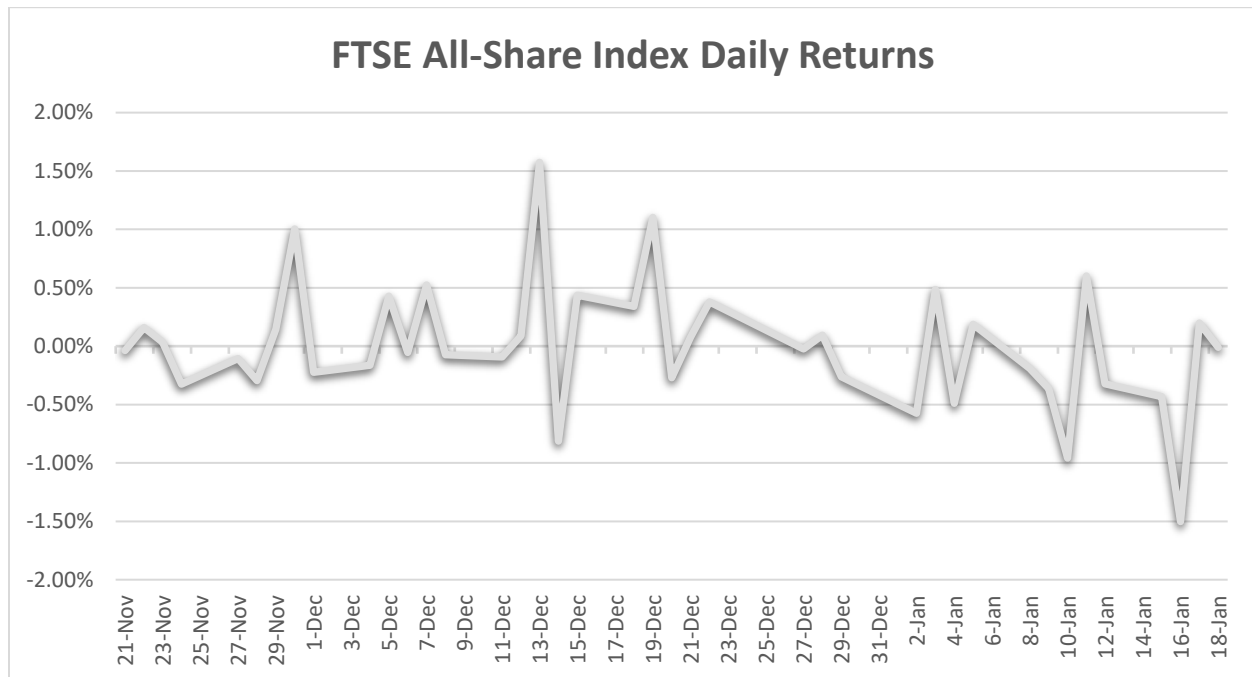
NYSE Daily 60-Day Daily Returns



Note: Data obtained from Yahoo Finance (n.d.). *NYSE Composite (DJ)(^NYA)*. Yahoo! Retrieved January 20, 2024, from <https://finance.yahoo.com/quote/%5ENYA/> and was exported to excel for analysis and visual depiction.

Figure 2

FTSE All-Share Index 60-Day Daily Returns.



Note: Data obtained from London Stock Exchange (n.d.). *FTSE All-Share FTSE Overview*.

Retrieved January 20, 2024, from <https://www.londonstockexchange.com/indices/ftse-all-share> and exported to excel for data analysis and visual depictions.

Although these metrics are broad measures of the entire exchange, assumptions can be made that specific stocks may perform better under different exchanges. When considering international exchanges, an organization must consider the economic environment of the country the exchange is listed in. The tradeoffs between expected return and anticipated risks are additionally critical elements of consideration. Examining the 60-day performance of the FTSE and NYSE implies that the NYSE provides increased rates of return at lower levels of volatility. Although performance of an organization is critical to the growth and sustainability of

shareholder value, macroeconomic impacts of a nation and their exchanges can present both opportunities and threats to the organizations' market capitalization.

Impacts of Macroeconomic Environments

Macroeconomics involves the broad study of economic conditions and the impacts they sustain on the business cycle and market volatility. Macroeconomic variables generally affect organizations and their dependence on the health of the economy. While all organizations rely on a particular level of stability to thrive, certain organizations are more sensitive to the vicissitudes of macroeconomic factors. Defensive stocks such as consumer staples and necessary service industries are less likely to experience abundant volatility during economic downturns compared to cyclical industries such as luxury goods, travel, and technology (CFI Team, n.d.). Economic factors, political factors, and the overall economic cycle can greatly impact the financial market, and drive growth or declines based on the impacts of these variables (CFI Team, n.d.).

Economic Cycle

The economic cycle is a naturally occurring cycle in which organizations and the economy rotate through periodically. During the expansion phase, or boom phase, of an economic cycle, expansion and wealth of the economy is increasing (Mishkin, F. & Eakins, S. 2024). This phase brings on prosperity in the economy and demand for investment vehicles increases (Mishkin, F. & Eakins, S. 2024). In contrast, the contraction phase incurs a decrease in economic activity, with an increase in adverse selection and moral hazards (Mishkin, F. & Eakins, S. 2024). Prodigious contractions may result in panic, leading to financial crisis; examples include the Great Depression and the Great Recession.

Economic cycles have dramatic impacts on how well financial markets perform. On a macroeconomic level, economic expansion cycles occur after corrections or recessionary events.

An economic expansion largely increases value to financial markets and provides acceleration in the growth of wealth for investors and organizations (Fidelity Viewpoints, 2023). Between 1962 and the present, business expansion cycles have created an average return of 20% within the financial markets (Fidelity Viewpoints, 2023).

While the business expansion cycles promote growth in the equities market, recessionary events create havoc and uncertainty for stock securities. History reveals the average stock performance results in a 15% decline per recessionary event (Fidelity Viewpoints, 2023). However, recessionary events are typically short lived, and promote growth in other investment vehicles, such as bonds. As the economy enters an economic bust cycle, government intervention in the form of decreased interest rates is enacted to promote a spur of growth for the economy (Fidelity Viewpoints, 2023). As interest rates decline it increases the demand for organizational borrowing, and assists organizations in promoting economic growth (Mishkin, F. & Eakins, S. 2024). In addition to this, well established organizations that promote investor value through dividend payments, are often less volatile to economic vicissitudes compared to growth-oriented equities (Fidelity Viewpoints, 2023).

The economic cycles of a nation may impact the international markets in addition to domestic markets. A U.S. contraction in monetary policy may reduce demand for foreign produced goods within the United States (Brauning, F. & Sheremirov, V. 2021). Nations that are focused on high international trade are more likely to experience negative effects of a contractionary economic cycle of a foreign country compared to nations that promote a high level of domestic trade (Brauning, F. & Sheremirov, V. 2021). Studies from the European Central Bank indicates that economies relying on heavy influence from international trade such as the Asian markets are likely to experience increased volatility from external and international

influences (Sanchez, M. 2007). In contrast, the Latin American markets, which traditionally are more reliant on domestic trade, are less likely to be exposed to external influences, and create less volatility within their financial markets (Sanchez, M. 2007).

Market Influences: Social & Political

Financial Markets are vastly dependent on social and political factors which dictate their health and wellbeing. Financial markets are eminently regulated industries within nations (Mishkin, F. & Eakins, S. 2024). Because of this regulation and intervention, financial markets are susceptible to the imposed demands of governments and society. Events such as government tensions, increased tariffs, and limitations on trade or investing may impede the financial growth of an organization (Dunung, S. 2019). Additionally, if governments feel threatened that foreign investment is limiting jobs and growth in specific industries, governments may enact policies limiting the investment of foreign entities within their nations (Dunung, S. 2019).

To shed light on the influence of government regulation on foreign investment, a case study of Apple, Inc has been provided. Recently, Apple has come under scrutiny from China's national government. Once a dominant force in the smartphone industry for China, Apple has seen a steady decline in market capitalization due to Chinese restrictions on the use and purchase of Apple made products. In 2023, the Chinese government enacted policies limiting the use of Apple products by government officials, dealing massive blows to the organization (Nolan, B. 2024). These restrictions helped to bolster growth for Chinese smartphone corporation Huawei. As a result, Apple experienced a 30% YoY decline on smartphone sales in the Chinese market (Nolan, B. 2024). Examples such as this help to illustrate how a nation's policy may restrict organizational growth of firms.

Social and cultural norms additionally explain how financial markets may be impacted by societies' views. To thrive on an international level, organizations must adhere to cross-cultural understandings, and reorient their mindsets on the expectations of the culture being served (Dunung, S. 2019). Local cultures vastly impact the success of international organizations. Organizations must be able and willing to adapt to the challenges of meeting the needs of cultures around the world (Dunung, S. 2019). Furthermore, cultural influences may create a conflict of interest for an organization. An organization that promotes equity and wage equality may find it difficult to invest in a nation that adheres to poor wage growth or promotes inequalities of gender and race.

Recently within the United States, environmental social governance (ESG), has become an increasing influential factor dictating the purchase and sale of securities by investors. Investors who have a social or moral consciousness to promote ESG are more likely to invest in organizations that promote benefits to communities, cultures, and the environment (Dunung, S. 2019). Financial markets can be impeded by not adhering to the social needs of a community. Research by Bank of America illustrates that companies within the S&P 500 have seen significant stock market declines, when not adhering to ESG requirements of the community (CMS Law, n.d.). Thus, companies refusing to meet the social demands of stakeholders are likely to see an increase in overall risk for their financial instruments.

Macroeconomic Impacts of Interest Rates

Interest rates and inflation are arguably two of the main catalysts impacting financial markets and their abilities to thrive. Interest rates affect both personal and organizational decisions including when to save versus spend and how to best allocate resources for sustainability (Mishkin, F. & Eakins, S. 2024). Inflation, however, defines how purchasing

power erodes overtime, and overall changes in price level changes overtime (Mishkin, F. & Eakins, S. 2024). Inflation and interest rates vehemently impact the risk and expected returns of an investment vehicle. As interest rates increase, the borrower becomes obligated to increase interest expenses when seeking financing for capital expenditures. In contrast, rises in inflation rates can reduce the real returns of investments, causing declines in overall returns for an individual or organization (Mishkin, F. & Eakins, S. 2024).

In response to interest rates and inflation, financial markets may grow or decline over time. As interest rates rise, financial markets may see less demand for the sale of bonds, due to organizations needing to pay increased interest expenses (Mishkin, F. & Eakins, S. 2024). As inflation increases, the risk premium of investment vehicles must increase to reward investors on their purchase of financial instruments (Mishkin, F. & Eakins, S. 2024). Financial markets are thus theorized to be extremely sensitive to macroeconomic fluctuations in interest rates and inflation.

Effect of Economic Cycle on Investment Vehicles

Indeed, the boom bust cycles affect the broad market, albeit specific financial markets may react differently than others. The evidence above indicates that while stock equities tend to dramatically decline during the contraction phases of an economic cycle, bonds and loans tend to increase in supply volume, helping to promote future growth. Interest rate declines will affect the paper value of stocks traded within the secondary market, and may create short-term losses (Mishkin, F. & Eakins, S. 2024). Increased supply of bonds may help promote growth in the economy and allow investors liquidity to purchase investment vehicles that may provide a hedge during these economic downturns. As investors flock to bonds for security, demand for bonds will increase, raising the rates in the secondary market, driving bond values into positive

territories (Mishkin, F. & Eakins, S. 2024). This supply and demand relationship will serve to promote equilibrium in the markets (Mishkin, F. & Eakins, S. 2024).

Likewise, other financial instruments experience demand fluctuations dependent on the health of financial markets. Mutual funds are likely to experience volatility as financial markets decline due to investors withdrawing funds to protect against potential losses (Fidelity Viewpoints, n.d.). Commodities, on the other hand, are often utilized as hedges against economic downturns, and may promote investor safety when other financial instruments are affected by negative financial market movements (Credit Suisse 2019).

In contrast, a rise in commodity prices during economic downturns may drastically impact firms that rely on specific commodities for manufacturing and production related activities. As prices rise, businesses are likely to incur an increase in raw material costs (Credit Suisse, 2019). To prevent downside risk in the commodities market, many organizations utilize financial derivatives to hedge against increases in commodity prices.

Companies wishing to enter the primary market must be vigilant of the economic atmosphere during entry. An organization electing to issue common stock must analyze how their stock may perform, and if the financial markets are in a period of potential success for this investment vehicle. If the economy is experiencing a contractionary event, or political tensions may hinder the growth of an industry, it may be unwise for an organization to enter an IPO in a specified financial market. It may be more appropriate to seek an IPO in a foreign market, which is experiencing better economic stability, or forego the investment until a time in which economic growth is more sustainable.

Governance and Oversight of Financial Markets

Financial Markets are held to tremendous amounts of government regulation and oversight. Because of the complexities of the financial market, it is imperative to regulate these markets and promote stability within the financial system. Furthermore, central banks of nations help ensure financial market and economic sustainability through monetary policy decisions. Should the financial market be allowed to perform without government oversight and regulation, then adverse selection and moral hazard issues could create distrust in the financial system, leading to the potential rise in financial crises. Thus, the regulation of financial markets and exchanges both in the domestic market and the international market promote stability, growth, and prosperity.

U.S. Financial Markets Oversight and Governance

As with most developed nations, the United States outlines strict regulatory statutes for the financial markets to ensure stability for the system. In the United States, statutory and regulatory authority is created by Congress, and enforced by various bureaucratic agencies. The major agencies include the Securities and Exchange Commission (SEC), The Office of the Comptroller of Currency (OCC), The Federal Reserve System (FED), and the Commodities Futures Trading Commission (CFTC) (Dalton, M. et al 2021).

The SEC is one of the most commonly referred to agencies when discussing financial markets regulation. The SEC is tasked with enforcing regulatory authority of organized exchanges and the U.S. financial markets (Mishkin, F. & Eakins, S. 2024). Agency enforcement of financial markets includes regulations involving disclosure of information, sale of securities, and criminal statutes involving fraud and insider trading (Dalton, M. et al 2021; Mishkin, F. &

Eakins, S. 2024). Because of the broad authority vested to the SEC, most organizations interested in entering the financial markets will be subject to the guidelines and authority of the SEC.

The OCC and the FED operate as the oversight body for regulation within the financial sector. The OCC is responsible for federally chartered commercial banks or thrift institutions, along with foreign financial institutions operating within the United States (Mishkin, F. & Eakins, S. 2024). The overall mission of the OCC is to promote financial institutional operations in a safe and efficient manner while providing fair access to financial services; the fair and equitable treatment of customers; and the compliance of applicable laws and regulations (Office of the Comptroller of the Currency, n.d.). Furthermore, the OCC regulates asset ownership compliance within the banking sector and dictates which assets are allowed to be purchased for investment opportunities (Mishkin, F. & Eakins, S. 2024).

In contrast to the OCC, the FED is tasked with much broader oversight of all depository institutions within the United States. Regulatory authority instilled upon the Fed authorizes the examination and auditing of commercial banks associated with the Federal Reserve System (Mishkin, F. & Eakins, S. 2024). In addition, the Fed is tasked with setting the reserve requirements for all banks (Mishkin, F. & Eakins, S. 2024).

Unlike most government agencies, the Federal Reserve system is both a government agency and a privately owned institution. This separation ensures that government regulation can still be mandated, but that monetary policy remains independent of political influence. Mishkin & Eakins (2024) provide evidence that political influence on monetary policy can impact price stability, because political influence is often shortsighted, and does not focus on long-term impacts to the economy. This evidence supports the theory that allowing the Federal Reserve to act as a regulatory body while remaining independent from bureaucratic intervention provides

the financial sector to operate in a manner sufficient to promote stability without the constant changing of government policies.

The Federal Reserve accomplishes monetary policy enactments by electing both Presidents and Board of Governors to assess the economic performance within the United States. The Federal Reserve achieves economic stability by enacting specific measures which dictate interest rates and limit the impact of inflation on price stability (Mishkin, F. & Eakins, S. 2024). Monetary policy enactments promote economic stability by impacting how consumers and organizations determine borrowing needs and capital expenditures. As interest rates rise, borrowing becomes less prevalent, and consumer spending declines. This leads to less spending and a reduction in inflation over time.

Federal Reserve monetary policy can often be described as a period of quantitative tightening or quantitative easing. Mishkin & Eakins (2024) infer that by enacting quantitative tightening policies, the Fed is able to reduce inflation impacts on the economy, and lower economic output to achieve price stability. In contrast, when the economy is in periods of decline, quantitative easing policies, such as interest rate decreases can be enacted to spur growth and assist in creating momentum to drive the economy upwards (Mishkin, F. & Eakins, S. 2024).

Rules & Regulations: U.S. Markets

Organizations electing to publicly list equities within the U.S. markets must be aware of the rules and regulations that outline how an organization must proceed when listing. In the case of Birkenstein Holdings (NYSE: BIRK), the organization sought to publicly list shares on the New York Stock Exchange (NYSE). For Birkenstein Holding PLC to be eligible for listing, the firm must adhere to both NYSE mandates, along with the mandates of the SEC. SEC regulations mandate that organizations properly file specific quarterly and annual reports such as the

prospectus, 8-K, 10-Q, and 10-K (Baker Mackenzie, 2022). Additionally, rules such as accounting practices and how the company discloses information may affect an organization wishing to publicly list on American exchanges.

As reflected in **Barriers to Entry: NYSE** section, BIRK is subject to the income and listing guidelines set forth by the NYSE. Requirements for listing include that the organization has a minimum of 400 public shareholders with average aggregate earnings of \$1 million over the past two to three fiscal years (New York Stock Exchange [NYSE], n.d.). Furthermore, the organization must have a market capacity of at least \$50 million with stockholders' equity of at least \$ 4 million (NYSE, n.d.). Exchange regulations make it arduous for smaller organizations to list on major indexes, but it provides safety to investors limits the effects of asymmetric information in financial markets.

Due to BIRK's status as a foreign organization, additional rules will apply for listing standards on the NYSE. The filing of a form 6-K is mandatory for all foreign entities registering to list shares on American exchanges (Baker Mackenzie, 2022). In lieu of the 10-k foreign companies must file a form 20-F with the SEC annually outlining the disclosure obligations of the foreign entity (Baker Mackenzie, 2022). Furthermore, foreign entities wishing to adhere to corporate governance of their domicile nation, in lieu of the U.S., corporate governance practices, must disclose this information to the SEC and shareholders (Baker Mackenzie, 2022). These extra practices assist in providing the American domestic market with extra protections against asymmetric information from foreign entities.

International Markets Governance and Oversight

While similar to the American domestic markets, the international markets additionally set forth regulatory guidelines that dictate how organizations must act in accordance with the

laws surrounding investment opportunities. Each sovereign territory will outline specific regulations and compliance standards for organizations seeking investment opportunities within their borders. Government regulations of foreign nations can be accessed by visiting the regulatory office websites of the specific nation or market in which investment opportunity is sought. For purposes of this report, the London Stock Exchange will be utilized to depict how international financial markets set forth regulatory guidelines compared to the U.S. financial markets.

The Financial Conduct Authority (FCA) acts as the regulatory authority for financial markets within the United Kingdom. Similar to the SEC, the FCA acts as the agency to protect financial markets, enhance the integrity of the financial system, promote competition, and effectively protect the interests of consumers (London Stock Exchange, n.d.). The FCA enforces regulatory guidelines under the UK's Financial Services and Markets Act (London Stock Exchange, n.d.). Similar to the SEC disclosure requirements, the FCA requires initial disclosure documents that provide information about the organization, how they operate, products and services offered, etc. (Jigsaw Finance, 2023).

As reflected upon in the **Barriers to Entry: FTSE** section, the London Stock Exchange has its own standards set forth for listing requirements. These requirements include an audit history minimum of three years, minimum market capacity of €700,000, sufficient working capital of at least 12 months, and adherence to corporate governance requirements (Price Waterhouse Coopers [PWC], 2016). As noted prior, many exchanges share similarities with regulations on entry, but some may be more restrictive than others. Additionally, because of cultural impacts, some markets may prioritize qualitative restrictions such as corporate governance and promotion of ESG over quantitative and monetary demands.

Listing Opportunities – Multiple Markets

Many organizations opt to list shares in multiple markets throughout the international landscape. There are multiple avenues to listing an organization on multiple exchanges, some of which include dual listing – directly issuing shares of stock on multiple exchanges, or depository receipts – third party financial securities of a foreign organization listed on an exchange (Corporate Finance Institute [CFI], n.d.). Dual listing can be defined as the act of an organization issuing its shares on multiple exchanges, while depository receipts are not actual shares, and simply represent shares of an organization by a third party (CFI, n.d.).

The synergistic effects of multiple listings provide numerous benefits to an organization with the capacity to list on multiple exchanges. Benefits include increased liquidity, access to a larger capital base, and increased trading time. Due to the ability for investors across the globe to access shares on their domestic exchanges, liquidity is generally increased for the firm (CFI, n.d.). Additionally, because of increased liquidity, an organization can increase opportunities for raising capital through a more prodigious investor base (CFI, n.d.).

Due to the increased variables of dual listing negative impacts can arise when considering dual listing opportunities. These negative implications include additional preparations, additional procedures, increased documentation, and increased costs. To prepare for dual listing, an organization must spend increased time and efforts to assess the potential benefits and drawbacks of the listing (Tamplin, T. 2023). Because each nation adheres to different regulatory requirements, it will be likely that necessary documentation and reporting standards will increase, thus increasing the cost burden of the organization opting to list in multiple exchanges (Tamplin, T. 2023). These risks, on top of social and political risks within the foreign markets increase the risks associated with investment opportunities of organizations. An organization

must carefully assess these additional risks before assuming that it is appropriate to list securities on multiple exchanges.

Effects of Noncompliance

Noncompliance of regulatory authority in financial markets can severely impact an organization. Failure to comply with SEC regulation may result in investor rescission, or the right to have investments returned to the investor (Brinen & Associates, n.d.). Additionally, suspension or revocation of continued investment and trading rights may be applied to an organization failing to comply with SEC authority (Brinen & Associates, n.d.). In severe cases, organizations and their executives may also be subject to civil and criminal penalties set forth by Congress. It is essential that organizations strategically implement policies and plans to comply with all regulatory guidelines set for in the financial markets.

Monetary Policy and Impacts of Interest Rates

Interest rates have drastic impacts on financial markets and the outcome of economic stability in nations. Because interest rates correlate to risk and returns, investors will require interest rates subject to the amount of risk incurred on their investments (Mishkin, F. & Eakins, S. 2024). Although interest rates dictate returns relative to risk in the financial market, they are useful tools in monetary policy.

Interest rates are utilized as monetary policy tools across the globe. Each nation may use these tools in a different manner to impact their priority goals. Within the United States, the Federal Reserve System and the FOMC analyzes and creates interest rate targets to achieve appropriate inflation levels within the United States (Mishkin, F. & Eakins, S. 2024). In Europe, the Eurosystem utilizes interest rates in monetary policy tools to achieve price stability within their borders (Mishkin, F. & Eakins, S. 2024).

As inflation rises, or price stability weakens, central banks will enact quantitative tightening policies, such as interest rate hikes, to reduce the impact of inflation, and limit the amount of borrowing between organizations and financial institutions (Mishkin, F. & Eakins, S. 2024). Once price stability is achieved, interest rates may remain current until new economic conditions arise. In the event of a recessionary event, or a decrease in inflation, central banks may utilize quantitative easing policies by reducing interest rates to stimulate economic growth in an economy (Mishkin, F. & Eakins, S. 2024). As such, the relationship between economic growth and interest rate determination is an imperative function within monetary policy determination.

Risks & Returns Associated with Investments

Investors are by nature considered risk adverse individuals. As risk of investment opportunities increase, investors will subsequently require increased expected returns on an investment to offset the incurred risk of undertaking a specific investment (Mishkin, F. & Eakins, S. 2024). Naturally, certain investment vehicles adhere to larger risk than compared to other investment vehicles. Common stocks typically incur much larger risk than bonds but provide higher expected returns due to the extended risk. In contrast, bonds often provide much lower returns, at a lower risk, as bondholders secure rights to receive compensation through asset liquidation in the event of insolvency (Smart, S. & Zutter, C. 2020). Furthermore, exotic investments such as derivatives contracts and currency exchange, can both provide increased risk and return potential, along with hedging abilities to prevent increased risks (Smart, S. & Zutter, C. 2020). By analyzing and comparing the risk-reward tradeoffs of both similar and opposite investment vehicles, an investor can then select an appropriate vehicle that meets the expected return demands of the investor at an accepted risk level.

Risk-Return Analysis: Stocks & Equity

Stocks and equities represent an ownership stake in an organization. These are amongst the riskier of investment selections. While stocks typically outpace their bond counterparts in expected returns, they are associated with an increase in inherent risk. Furthermore, stocks in one region may incur more risk exposure than in another region due to varying economic, political, and social conditions throughout the world.

The United States is the dominant force within the international financial markets. Based on the principles of a free capitalistic society, investors, and entrepreneurs alike flock to the American financial markets to secure investment opportunities that may benefit their overall goals. Modern investment enhancements now provide for individuals worldwide to access the American domestic markets easily and affordably, further spurring growth in the financial markets.

In comparison, the London financial markets have a history rich in investment. Similar to the U.S., the London stock exchange promotes liquidity and stable investing in the financial markets of their nation.

U.S. Equities Market Analysis

To understand the risk-reward impacts within the U.S. Markets, an analysis of the Willshire 5000 U.S. Total Market Index annual returns between 1972 and 2023 was completed; average return and standard deviation were computed for the risk-reward comparison. While many analysts utilize the S&P 500 for U.S. economic data, the Willshire 5000 is a more appropriate index when considering total domestic market trends, or the NYSE, which holds 2400 stocks.

Initial analysis resulted in the U.S. total market to incur expected returns ranging from -22.4% in 1974 to 37.4% in 2021 (Federal Reserve System, 2024a). Over the 51-year data analysis, the Willshire 5000 incurred an average rate of return of 11.6% with a standard deviation of 14.0%. Years of positive returns outpaced years of negative returns with 42 periods of growth compared to 9 periods of negative growth (Federal Reserve System, 2024a).

Table 1

Willshire 5000 U.S. Total Market – Annual Returns (1972-2023)

Date	Willshire 5000 Returns (%)
1972-01-01	16.4
1973-01-01	-4.8
1974-01-01	-22.4
1975-01-01	12.3
1976-01-01	23.0
1977-01-01	3.0
1978-01-01	7.7
1979-01-01	25.0
1980-01-01	18.1
1981-01-01	15.0
1982-01-01	-3.1
1983-01-01	43.0
1984-01-01	1.4
1985-01-01	22.1
1986-01-01	30.4
1987-01-01	21.0
1988-01-01	-3.9
1989-01-01	25.0
1990-01-01	3.7
1991-01-01	16.9
1992-01-01	15.2
1993-01-01	13.4
1994-01-01	4.8
1995-01-01	19.7
1996-01-01	25.8
1997-01-01	29.4
1998-01-01	23.2
1999-01-01	21.6
2000-01-01	11.5
2001-01-01	-16.9
2002-01-01	-13.8
2003-01-01	0.7
2004-01-01	21.0

Date	Willshire 5000 Returns (%)
	10.4
2005-01-01	
2006-01-01	11.8
2007-01-01	14.9
2008-01-01	-15.7
2009-01-01	-19.8
2010-01-01	24.3
2011-01-01	14.0
2012-01-01	10.3
2013-01-01	22.5
2014-01-01	19.7
2016-01-01	3.3
2017-01-01	19.9
2018-01-01	14.1
2019-01-01	7.4
2020-01-01	12.2
2021-01-01	37.4
2022-01-01	-4.8
2023-01-01	5.5
Average	11.6
Std. Dev	14.0

Note: Data obtained from Federal Reserve System (2024a, February 8). *Willshire 5000 Total*

Market Index. FRED. Retrieved February 8, 2024, from

<https://fred.stlouisfed.org/series/WILL5000IND>. Data was exported to excel and analyzed to compute the average returns and standard deviation.

London Equities Market Analysis

The impacts of implied risk on expected returns for the London Stock Exchange was analyzed based upon data obtained from the Organization for Economic Co-operation and Development (OECD) and retrieved from the St. Louis FRED. This database obtains index related information relevant to changes in stock prices from the total market standpoint of the London Stock Exchange. OECD (2024) data was collected and analyzed on an annual level between 1972 and 2023 to calculate the average returns and standard deviation of returns throughout the applicable period.

Initial data analysis indicates that the returns of the U.K. financial markets ranged from -41.1% in 1974 to 28.2% in 1977 (OECD, 2024). Over a 51-year period analyzed, the U.K. markets average return was calculated at 7.3% with a standard deviation of 14.2%. Additionally, the U.K. markets experienced 38 growth periods compared to 13 periods of declines (OECD, 2024). Data analysis indicates that not only does the FTSE underperform the NYSE, but it additionally sees an increase of volatility. Due to volatility risks and minimized returns, investor sentiment within the FTSE may be less optimistic than the NYSE.

Table 2

OECD U.K. Total Market- Annual Returns (1972-2023)

Date	U.K. Total Market Returns %
1972-01-01	27.6
1973-01-01	-13.6
1974-01-01	-41.1
1975-01-01	24.9
1976-01-01	19.8
1977-01-01	28.2
1978-01-01	12.7
1979-01-01	13.6
1980-01-01	6.9
1981-01-01	12.8
1982-01-01	15.9
1983-01-01	26.2
1984-01-01	18.7
1985-01-01	19.8
1986-01-01	21.5
1987-01-01	28.0
1988-01-01	-11.4
1989-01-01	20.7
1990-01-01	2.3
1991-01-01	10.8
1992-01-01	3.9
1993-01-01	15.6
1994-01-01	6.2
1995-01-01	6.6
1996-01-01	14.3
1997-01-01	22.5
1998-01-01	20.0
1999-01-01	11.6
2000-01-01	1.4
2001-01-01	-12.8

Date	U.K. Total Market Returns %
2002-01-01	-17.3
2003-01-01	-12.0
2004-01-01	11.7
2005-01-01	14.0
2006-01-01	14.9
2007-01-01	8.1
2008-01-01	-16.2
2009-01-01	-15.0
2011-01-01	4.1
2012-01-01	0.9
2013-01-01	12.7
2014-01-01	3.3
2015-01-01	-1.3
2016-01-01	-1.9
2017-01-01	14.0
2018-01-01	-0.3
2019-01-01	-1.0
2020-01-01	-13.8
2021-01-01	11.5
2022-01-01	5.2
2023-01-01	3.5
Average	7.3
Std. Dev.	14.2

Note: Data obtained from Organization for Economic Co-operation and Development [OCED] (2024, February 9). *Share Prices: All Shares/Broad: Total for United Kingdom*. FRED.

Retrieved February 10, 2024, from <https://fred.stlouisfed.org/series/SPASTT01GBM661N>. Data was exported to excel for computations on average returns and standard deviation.

Market Analysis: Dividends & Capital Gains

While risk and return data infers that the U.K. financial markets provide lower returns at an increased risk compared to their U.S. counterparts, considerations toward dividends, capital gains, and share price relative to earnings additionally impact the value of stocks. Due to specific goals and objectives, prioritization of security types will be unique to each investor. One might consider that capital appreciation is a priority compared to dividend payments. Furthermore, assessing the value of a stock may be completed by analyzing the intrinsic value based on

dividend valuation or the price-to-earnings multiple (Mishkin, F. & Eakins, S. 2024). Factors such as these impact investment attractiveness and assist in determining the risk relative to returns a security may provide.

Consideration: Dividend & Dividend Valuation

The impact of dividends is apparent in both the U.S. and U.K. financial markets. Historically, the United States has favored capital appreciation stocks compared to their European counterparts, which typically prefer a dividend-based investment model. (CITEC, 2023). Analysis of American taxation policy supports this assumption. Prior to recent regulation, dividend income was subject to the taxation equivalent of earned income, while capital gains are taxed at a potentially lower rate (Mishkin, F. & Eakins, S. 2024). Mishkin & Eakins (2024) also note that organizations are unable to deduct dividend payments from tax liability like the deductibility of interest paid toward debt instruments. Furthermore, the U.S. dividend yield ratio of the S&P 500 is currently averaging 1.47% annually compared to the FTSE All Shares index averaging 3.33% (Ycharts, 2024). Because of this, the FTSE may be more appropriate for those who seek investments in a dividend-based investment approach.

Additionally, dividends offer a valuable tool to pricing securities. Valuation models such as the generalized dividend model and the Gordon growth dividend model allow for intrinsic valuation of a security by calculating the present value of a security based on their current or expected growth of dividend payments (Mishkin, F. & Eakins, S. 2024). This analysis provides investors with the ability to select a security at an appropriate price relative to the risk they are assuming.

Consideration: Capital Gains

While dividends present an investor with the potential for steady income streams, the value of capital gains appeals to investors. These stocks allow for higher expected rates of return, but at an increased risk level. Capital gains additionally allow investors to be rewarded with increased value of securities, without the organization having to utilize earnings to compensate investors. Retaining these earnings allows for firms to increase their growth at faster paces (Smart, S. & Zutter, C. 2020).

When analyzing the intrinsic value of securities, the price-to-earnings ratio is often utilized to compare the prices of securities. The P/E ratio considers the intrinsic value of a security and the number of times higher a security is trading at (Mishkin, F. & Eakins, S. 2024). The higher the P/E ratio, the further from the intrinsic value a security is assumed to be trading at.

Ed Monk (2023), a journalist with Fidelity international, aims to compare the P/E ratios between the U.K. and the U.S. The forward P/E of U.S. stocks were assumed to trade at a P/E ratio of 19 compared to their U.K. counterparts with a forward P/E of 10, as of 2023 (Monk, E. 2023). This indicates that compared to their intrinsic value, U.K. stocks trade at a much lower multiple than U.S. based stocks. Furthermore, of all the major indexes, the U.K. is the cheapest priced stocks relative to their P/E ratios (Monk, E. 2023), offering upside potential to value seeking investors.

Risks & Returns Associated with Bonds

The greatest risk inherent to bonds is the risk of default. When an organization becomes insolvent, default risk associated with their bonds rapidly increases (Mishkin, F. & Eakins, S. 2024). Although investors in debt instruments may leverage the sale of an organization's assets

to recoup the investment, often times the full amount of principle may not be recovered. Additionally, the loss of interest on future coupon payments occurs. Interest rate risks present additional significant threats to the bond market and will be discussed in the Interest Rate & Inflation Risk section of this essay.

Analysis: Bond Returns U.S. v. U.K.

To analyze the returns of bonds for the U.S. And U.K. was completed by reviewing the average bond yields between nations. Data for U.S. corporate bonds was gathered from FRED (2024b). Due to lack of access on available historical data for the U.K. corporate bond yields, an average U.K. corporate bond yield of 5.33%, based on facts provided by Statista (2023)².

Federal Reserve Economic Data (2024b) reveals that U.S. corporate bond yields between 1997 and 2023 have ranged from 2.11% in 2021 to a high of 7.83% in 2000. Further computations reveal that the United States corporate bond market has averaged yields of 4.77% over the analyzed period, slightly lower than the United Kingdom. This indicates that the United Kingdom sustains higher costs of capital for organizations issuing bonds, and larger yield returns for investors.

² Historical data for U.K. bond performance could not be obtained on any governmental data website known. To supplement, data reported by Statista Research Department was utilized within this report for accurate U.K. bond yields.

Table 3*ICE BofA US Corporate Bond Effective Yield*

Date	U.S. Corp. Bond Yield
1975-01-01	7.3
1976-01-01	18.0
1977-01-01	11.2
1978-01-01	2.7
1979-01-01	1.9
1980-01-01	-5.2
1981-01-01	-0.8
1982-01-01	19.9
1983-01-01	25.6
1984-01-01	7.4
1985-01-01	23.9
1986-01-01	27.9
1987-01-01	1.9
1988-01-01	8.1
1989-01-01	11.7
1990-01-01	7.9
1991-01-01	13.6
1992-01-01	14.2
1993-01-01	13.7
1994-01-01	0.8
1995-01-01	10.9
1997-01-01	8.4
1998-01-01	10.5
1999-01-01	2.8
2000-01-01	2.6
2001-01-01	13.0
2002-01-01	7.0
2003-01-01	12.0
2004-01-01	5.6
2005-01-01	4.2
2006-01-01	1.8
2007-01-01	5.6
2008-01-01	-0.7
2009-01-01	5.3
2010-01-01	16.5
2011-01-01	7.0
2012-01-01	9.5
2013-01-01	3.0
2014-01-01	4.8
2015-01-01	3.0
2016-01-01	4.3
2017-01-01	4.0
2018-01-01	0.1
2020-01-01	9.8
2021-01-01	3.6

Date	U.S. Corp. Bond Yield
2022-01-01	-11.4
2023-01-01	-1.3
Average	7.6
Std. Dev	7.5

Note: Data obtained from Federal Reserve System (2024b, February 8). *ICE BofA US Corporate Index Effective Yield*. FRED. Retrieved February 9, 2024, from <https://fred.stlouisfed.org/series/BAMLC0A0CMEY>. Data was exported to excel to compute the average annual returns and standard deviations.

Commodities Performance

Commodities are instrumental investments for many organizations promoting manufacturing of goods and specific services. To appropriately forecast production costs, an organization must consider the costs incurred for the purchase of commodities. Commodities are often traded on futures contracts, which provide a specific settlement date and stated price between the associated parties (Smart, S. & Zutter, C. 2020). Futures contracts allow organizations to solidify the required sales prices for suppliers while hedging against volatile price fluctuations in the commodities markets. By entering into these contracts, investors can guarantee that their expected returns are manageable, so long as the contract is held to settlement (Smart, S. & Zutter, C. 2020).

Price and risk behavior associated with commodities is dependent on economic, political, and international pressures; subsequently weather impacts apply (Smart, S. & Zutter, C. 2020). Droughts or excess rains may cause crops in the United States to produce far less, resulting in increased costs for the commodity. Furthermore, if political tensions rise between nations, or economic uncertainties unfold, prices may be dramatically affected by international trade barriers.

Interest Rate & Inflationary Risks on Expected Returns

Interest rates and inflationary risks are relevant factors to consider with regard to expected returns. Although interest rates and inflation widely impact the bond market, the effects of these risk factors ripple into the equities and commodities markets. Investors will require increased rates of return as interest and inflation rises. Organizations may be less likely to secure funding through financial obligations. Additionally, inflation will erode purchasing power of currency, leading to negative consequences for the financial markets.

Bonds experience the highest degree of volatility to inflationary and interest rate risks due to the inverse relationship of interest rates and bond returns. As interest rates rise, bond prices fall due to investors' loss of opportunity costs on investing in new bonds at the higher rate (Mishkin, F. & Eakins, S. 2024). However, as rates begin to subside, a rise in bond prices will occur. Investors flock to the secondary markets to purchase bonds at the previously stated yields. This inverse relationship widely impacts volatility in bonds.

Inflationary risks are also prevalent considerations in the equities markets. Inflation impacts returns on physical assets such as goods for sale (Mishkin, F. & Eakins, S. 2024). If consumers cannot afford to purchase these goods when prices rise, profits and earnings will fall for organizations, lowering the value of stocks and equities held by shareholders.

On an international level, rate impacts can provide substantial gains or impactful losses on bonds and equities across the globe. As the world continues to move toward a global model of international trade, interest impacts in one nation affect investors in other nations. Those living in the United Kingdom, investing in U.S. bonds saw substantial losses as the FOMC began a series of monetary tightening policies within the United States.

Conclusions

Financial markets assessment is a fundamental step in determining the appropriateness of entering the public sector through an initial public offering. Social, political, and macroeconomic elements are significant considerations in determining an appropriate exchange to distribute a firm's shares. To thrive as a public organization, a firm must consider the benefits a selected exchange offers. Additionally, regulatory requirements of both governments and exchanges present barriers to entry for an organization. Organizations should carefully consider which exchanges promote optimal oversight and regulation toward the firm. Birkenstock Holding PLC selected the New York Stock Exchange for their initial public offering. When comparing it to the London Stock Exchange, this selection was a beneficial choice for Birkenstock. The New York Stock Exchange is a popular and noble exchange which historically provides adequate returns at a lower volatility level than the London Stock Exchange. Although an extra reporting standard may increase organizational costs, long-term growth in shareholder value will offset these costs and promote further growth for the organization. When assessing future projects for initial public offerings, an organization should consider the implications of government intervention; the costs of listings; the benefits of one exchange over another; and the future economic environment of a nation or exchange. Although a smaller organization may not have met the requirements to list major exchanges, over the counter markets and smaller exchanges exist and may benefit an organization who is seeking their first offering. Finally, interest rates and inflationary impacts are significant factors that may impact the timing of entering the financial markets. If inflation or interest rates are predicted to remain high, it may be worthwhile to forego listing opportunities until economic activity recovers.

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