



Ownership Structure and Governance of NLCs in Latin America: The Case of Chile

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Introduction:



- Standard conjecture: Smaller, NLCs present:
 - Higher ownership concentration
 - Family managed (and owned)
 - Rely more heavily in providers and bank financing.
- Differences in company size, financing patterns and governance mechanisms may be due to differences in industrial sector (economies of scale, for instance) instead of being stages in a process.



Table 1

Size Distribution of Chilean Companies

| | Micro | Small | Medium | Large | Total |
|-----------------------------------|---------|--------|---------|----------|---------|
| | (1) | (2) | (3) | (5) | (6) |
| Number of companies | 535,338 | 93,923 | 13,164 | 6,066 | 648,491 |
| (%) | 82.6 | 14.5 | 2.0 | 0.9 | 100% |
| Share of total sales (%) | 3.7 | 10.1 | 10.1 | 76.1 | 100% |
| Average Sales (Thousands of US\$) | 13.5 | 212.4 | 1,515.3 | 24,803.4 | 304.7 |
| Employment (Share of total, %) | 38.7 | 35.2 | 12.5 | 9.7 | 100% |
| Exports (Share of total, %) | 0.1 | 1.3 | 3.5 | 95.1 | 100% |

Latin American Capital Markets:



- Predominant presence of economic groups:
 - Pyramids
 - Dual class shares
- High ownership concentration and low free float.
- Low capitalization and low turnover.
- Small markets for private bonds
- Costs and benefits of issuing securities?



Ownership Structure of Latin American Listed Companies (2002)

| Country | % of 3 largest shareholders | % de firms with non voting shares | Non voting/voting shares | % of firms in pyramids | % cash flow rights of controller |
|-----------|-----------------------------|-----------------------------------|--------------------------|------------------------|----------------------------------|
| Argentina | 82% | 3.9% | 0.14 | 93% | 68% |
| Brazil | 65% | 86.9% | 1.29 | 89% | 60% |
| Chile | 74% | 7.2% | 0.07 | 68% | 57%** |
| Colombia* | 65% | 7.1% | 0.09 | 50% | - |
| Mexico | 73% | 37.8% | - | 72% | 59% |
| Peru* | 78% | 61.0% | 0.25 | 100% | - |
| Average | 73% | 34.0% | 0.37 | 79% | 61.0% |



Latin American Capital Market Indicators

| Country | GDP per cap.(US\$) (1) (2002) | GDP per cap.(US\$) PPP ajusted (1) (2002) | Market Cap./GDP (2) (1997) | Total Value Traded/GD P (2) (1997) | Claims of Financial Intermediaries/GDP (2) (1997) | # of listed firms (3) (2002) | # of ADR (4) (2002) |
|-----------|-------------------------------------|--|----------------------------------|--|--|---------------------------------|---------------------------|
| Argentina | 2400 | - | 0.11 | 0.04 | 0.15 | 152 | 24 |
| Brazil | 3580 | 7300 | 0.19 | 0.12 | 0.28 | 459 | 39 |
| Chile | 4590 | 9100 | 0.84 | 0.09 | 0.57 | 260 | 24 |
| Colombia | 2020 | 6060 | 0.13 | 0.01 | 0.31 | 74 | 3 |
| Mexico | 5070 | 8790 | 0.32 | 0.13 | 0.25 | 201 | 37 |
| Peru | 2080 | 4660 | 0.11 | 0.04 | 0.1 | 175 | 2 |
| Average | 3290 | 7182 | 0.28 | 0.07 | 0.28 | 220.2 | 21.5 |

Bond Markets in Latin America



| | Domestic Bonds | | | International Bonds | | | |
|----------------------|---------------------|-----------------|------------------|---------------------|----------------|--------------------------------------|-----|
| | Private Bonds | | Finan. System | Public Bonds | | Share of (%) GDP Domestic Debt | |
| | Share of (%) GDP | Private Debt | | Share of (%) GDP | Public Debt | | |
| Latin-America | | | | | | | |
| Argentina | 5 | 19 | 5 | 9 | 54 | 33 | 131 |
| Brazil | 10 | 26 | 13 | 50 | 75 | 11 | 30 |
| Chile | 23 | 27 | 14 | 27 | 97 | 13 | 15 |
| Colombia | 0 | 1 | 1 | 21 | 81 | 14 | 70 |
| Mexico | 3 | 15 | 7 | 18 | 56 | 9 | 54 |
| Perú | 4 | 15 | 9 | 3 | 49 | 1 | 3 |
| Average | 7 | 17 | 8 | 21 | 69 | 14 | 51 |
| East Asia | 32 | 22 | 13 | 29 | 72 | 17 | 11 |
| High Income | 40 | 27 | 18 | 41 | 80 | 32 | 24 |



Total Issuance Costs as Percent of Issue Size

| | Brazil | Chile | Mexico |
|--------------------|--------|-------|--------|
| Domestic Debt | 2.4% | 2.7% | 1.2% |
| Domestic Equity | 4.4% | 1.6% | 3.9% |
| International Debt | 2.2% | 2.2% | 2.2% |

Source: Zervos (2004)

NLCs versus LCs in Chile:



Focusing on large, registered NLCs:

- Equivalent financial disclosure requirements.
- Smaller firms.
- More equity financing.
- Higher ownership concentration.
- More family owned-managed.
- Smaller boards of directors.
- Investment funds vs. pension funds.

Capital and Ownership Structure of Registered Companies
Chile, 2002



| | Listed | | Non-Listed | |
|---------------------------------|--------------------------|---------|--------------------------|---------|
| | Total (MM of dollars) | Average | Total (MM of dollars) | Average |
| Total Assets | 55,241 | 319.3 | 21,126 | 76.8 |
| Bank Debt plus Bonds | 17,766 | 102.7 | 5,010 | 15.7 |
| | 32.2% | | 23.7% | |
| Suppliers and related companies | 11,844 | 68.5 | 4,289 | 18.2 |
| | 21.4% | | 20.3% | |
| Equity | 25,632 | 148.2 | 11,828 | 43.0 |
| | 46.4% | | 56.0% | |
| Board size | | 7.6 | | 5.9 |
| Largest shareholder (%) | | 55.2 | | 76.5 |
| Two Largest shareholders (%) | | 65.0 | | 87.1 |
| Three Largest Shareholders(%) | | 74.4 | | 94.4 |
| Number of Companies | 173 | | 318 | |

Institutional Investors

Chile, 2004



| | Pension Funds | Investment Funds |
|--------------------------|------------------|---------------------|
| US\$ MM | | |
| <hr/> | | |
| Registered Companies | | |
| Shares | 7,854 | 801 |
| Bonds | 3,343 | 207 |
| Non-Registered Companies | | |
| Shares | 128 | 141 |
| Bonds | 0 | 0 |
| Total Investments | 54,056 | 2,257 |

NLCs before the IPO process in Chile:



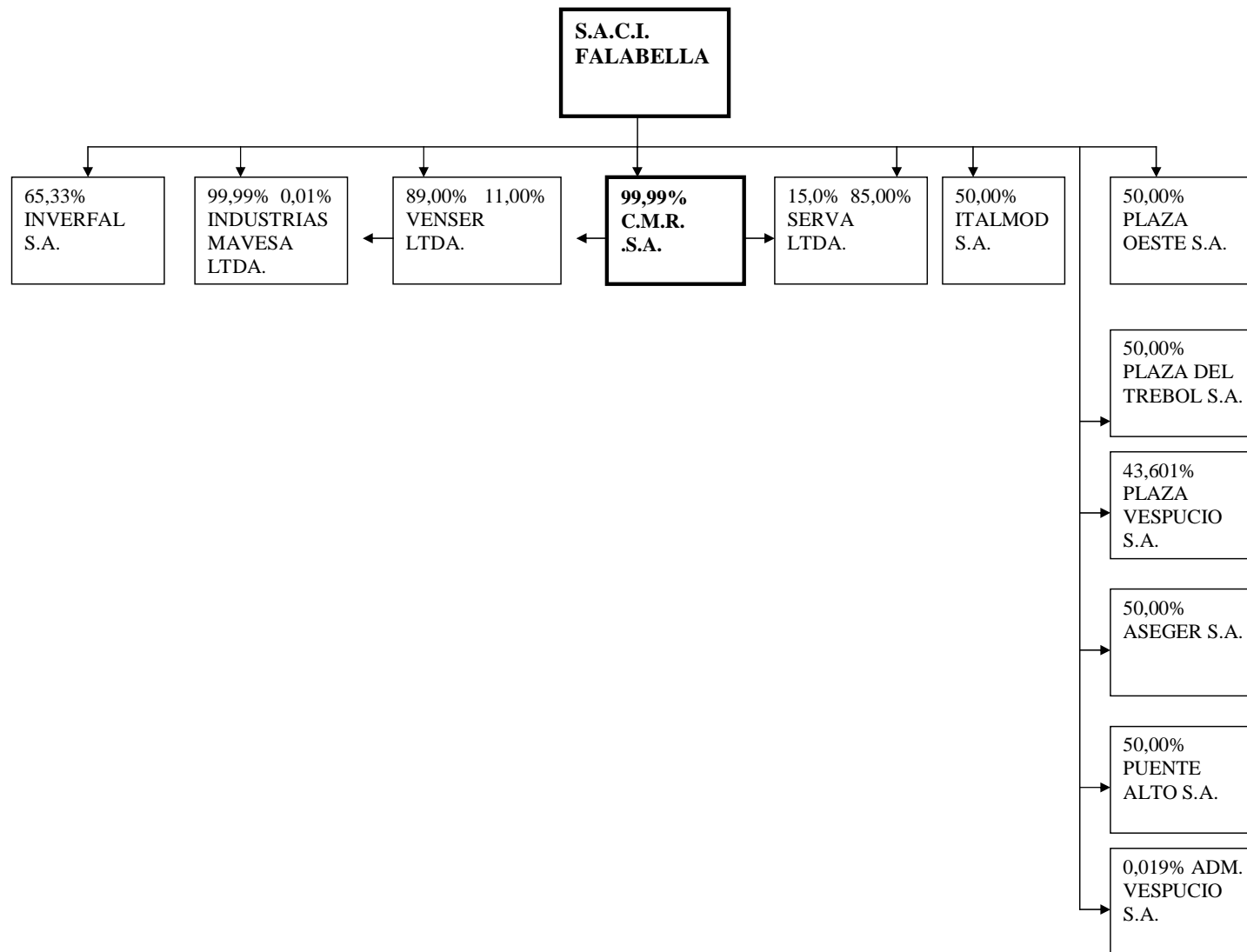
- Less concentrated.
- Stake sold: 20%
- Larger boards: presence of investment bankers and fund administrators.
- Economic groups listing holding companies: minority shareholders enter above in the pyramid.
- More than 3 colligated NLCs

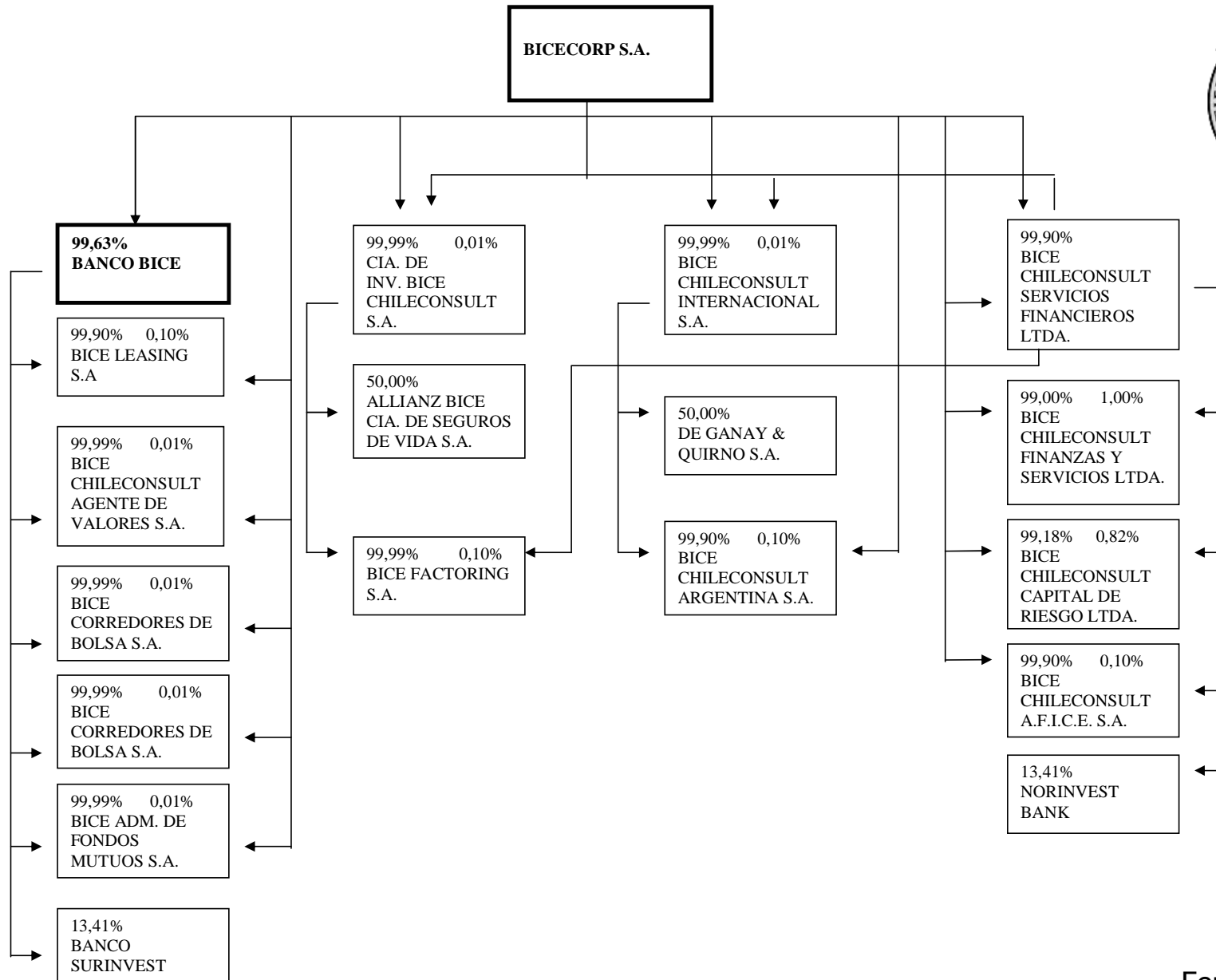
Characteristics of NLCs Before Going Public

Chile, 2004



| | IPOS | Registered NLCS |
|---------------------------------|-------|--------------------|
| Controller Stake before listing | 91.2% | 94.4% |
| Stake Sold | 20.0% | |
| Nro directores | 7.1 | 5.9 |
| Independent Board Members | 52.6% | |
| Number of Coligated | 3.1 | |
| Consolidated ownership | 75.9% | |
| Number of observations | 23 | 318 |





Conclusions



- Ownership concentration and separation of cash and control rights: Lefort (2004) show that both decrease firm value of LCs.
- NLCs in transition try to diminish information asymmetries:
 - Registering: disclosure.
 - Investment funds.
 - Larger boards.
- Economic groups list holding companies: minority shareholders enter above in the pyramid.