

Do Offshore Activities Teleport Information? Evidence from Foreign Analysts' Coverage of U.S. Firms

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MOTIVATION

- A growing number of U.S. multinational corporations engage in offshore activities due to globalization.
- Investors struggle to understand multinational firms' foreign operations due to geographic and linguistic distance, differences in accounting standards, and increased business complexity (Huang, 2015; Finke and Weigert, 2017).

RESEARCH QUESTION

Whether and how the geographic distribution of U.S. firms' offshore business activities affects information endowment among foreign financial analysts?

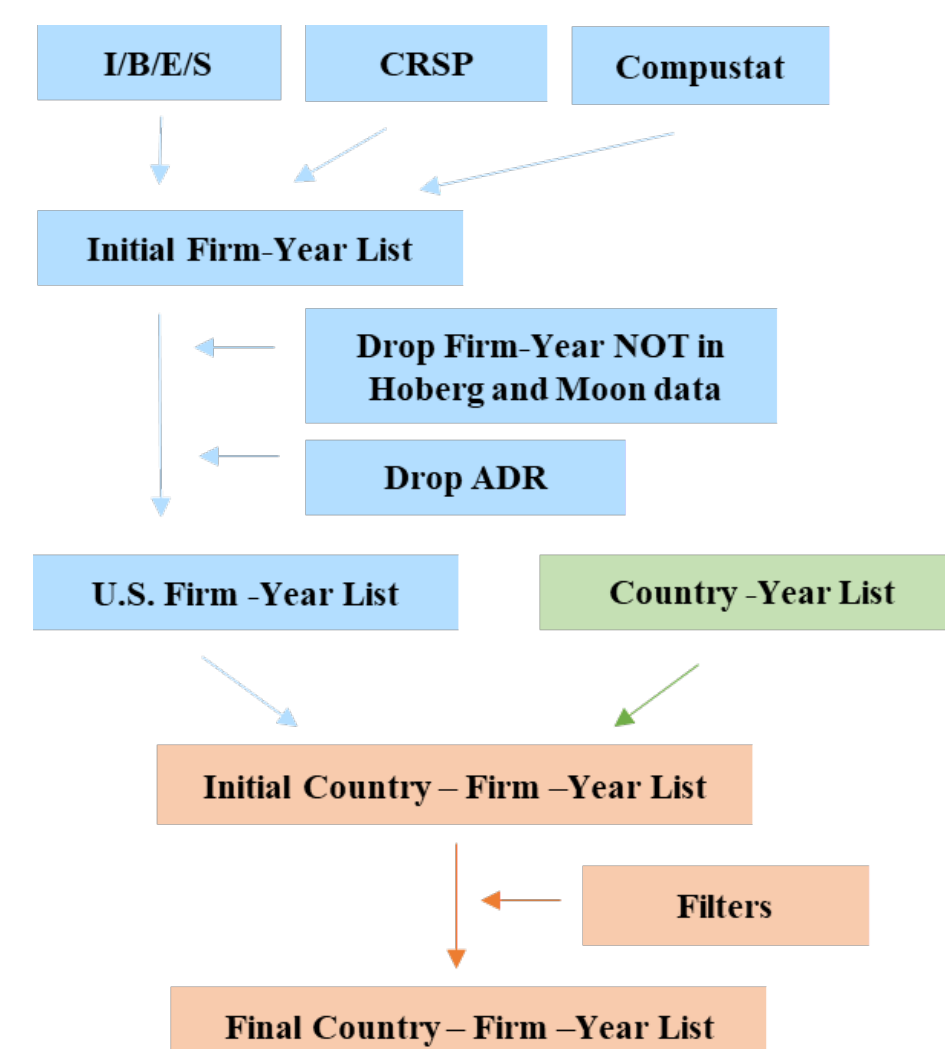
CONTRIBUTIONS

- Geography of information -- even non-local analysts could have information advantage due to offshore activities.
- Impact of U.S. offshore activities;
- Provide evidence of alternative information sources of financial analysts.

Data and Sample Construction

- (1) Offshore activities: Hoberg and Moon, 2017 (2) Analyst Location: Nelson's Directory
- We have two testing samples. (1) Coverage decision test

1,095,520 firm-country-year Obs
49 countries; 6,903 unique U.S. firms
Coverage rate = 0.32%



2) Forecast Accuracy Test: 17,418 Forecasts

EMPIRICAL MODEL

- Coverage decision test

$$Cover_Dummy_{i,j,t+1} = f(\alpha + \beta * Output_Var_{i,j,t} * \gamma * X_{i,j,t} + \lambda * Z_{i,j,t} + \epsilon_{i,j,t+1}) \quad (1)$$

- Forecast accuracy test

$$Forecast_Error_{a,i,j,t} = \alpha + \beta * Output_Var_{i,j,t} + \lambda * W_{a,t} + \gamma * X_{i,t} + \eta * Z_{j,t} + \epsilon_{a,i,j,t} \quad (2)$$

BASELINE RESULTS

Panel A: -- Coverage Decision Test (Logistic Regression)

Dependent Variable	Cover_Dummy	
	(1)	(2)
Output_Dummy	0.146*** (2.627)	
Output_Fraction		0.580*** (4.392)
Controls	Yes	Yes
Country Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Observations	844,464	844,464

Panel B: Earnings Forecast Accuracy Test (OLS Regression)

Dependent Variable	AFE/P	
	(1)	(2)
Output_Dummy	-0.199*** (-2.861)	
Output_Fraction		-0.297*** (-8.543)
Controls	Yes	Yes
Analyst Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Observations	17,338	17,338
adj. R-sq	0.321	0.321

Output_Dummy: A binary variable that equals one if there is at least one "output" related keyword mentioned for firm *i* in country *j* in year *t* and, zero otherwise.

Output_Fraction: Calculated as the number of mentions of "output" related keywords of firm *i* in country *j* in year *t*, divided by total number of "output" related keywords mentions across all countries in year *t*.

CROSS SECTIONAL - Country institutional infrastructure

Panel A: Foreign Analysts' Coverage Decision

Dependent Variable	Cover_Dummy				
	Weak Institutions	Anti-Director-Rights	Anti-Self-Dealing	Lower Legal System	Lower Disclosure
	(1)	(2)	(3)	(4)	
Output_Dummy*Weak Institutions	1.112** (1.971)	1.075*** (2.610)	1.139** (2.259)	0.975** (2.220)	
Controls	Yes	Yes	Yes	Yes	
Country Fixed Effects	Yes	Yes	Yes	Yes	
Year Fixed Effects	Yes	Yes	Yes	Yes	
Observations	844,464	844,464	736,597	736,597	

Panel B: Foreign Analysts' Forecast Errors

Dependent Variable	AFE/P				
	Weak Institutions	Anti-Director-Rights	Anti-Self-Dealing	Lower Legal System	Lower Disclosure
	(1)	(2)	(3)	(4)	
Output_Dummy*Weak Institution	-0.658* (-1.844)	-1.117*** (-3.357)	-4.524*** (-3.695)	-1.132*** (-3.144)	
Controls	Yes	Yes	Yes	Yes	
Analyst Fixed Effects	Yes	Yes	Yes	Yes	
Year Fixed Effects	Yes	Yes	Yes	Yes	
Observations	17,338	17,338	16,811	16,811	
adj. R-sq	0.241	0.241	0.243	0.243	

CHANNEL -- Investor Demand

Dependent Variable	Ln(1+Total # of EDGAR Searches)		Foreign Inst Holdings	
	(1)	(2)	(3)	(4)
Output_Dummy	0.960** (2.642)		0.446** (2.801)	
Output_Fraction		2.642*** (6.213)		1.085*** (4.918)
Controls	Yes	Yes	Yes	Yes
Country Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	3,446	3,446	2,620	2,620
adj. R-sq	0.298	0.279	0.374	0.379

CONCLUSIONS

- We study the impact of U.S. firms' offshore activities on non-U.S. analysts coverage decisions and forecast accuracy.
- Foreign analysts' coverage and forecast accuracy improves as U.S. firms sell more goods and products in the analysts' domiciled country.
- Channels of effect -- investor demand.