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How MarcumAsia's expertise can simplify U.S. listings for Asian firms

Going public can provide companies with the funding and the edge they need to stay ahead of the curve. Hence, Asian companies are increasingly looking to list on U.S. stock exchanges – whether to raise capital for expansion, access a larger pool of funds from a broader range of investors, or establish their brand and reputation in the market. In this analysis, we dissect how MarcumAsia's expertise in IPOs can help companies enhance their readiness to go public. This includes evaluating listing options, uncovering material weaknesses in need of improvement, strengthening their corporate governance with an emphasis on controls and transparency and ultimately increasing their ability to earn and retain investor trust and confidence.

Today, there are many options available to Asian companies seeking listings on the bourses. Choosing the right strategy must always be calculated. Many companies have global growth ambitions and seek to list on U.S. exchanges, as this can provide them greater visibility and access to expertise and liquidity. However, there are also costs and risks associated with listing on a foreign exchange, and companies must carefully consider these factors as part of a strategic exit strategy. MarcumAsia, a leading audit and advisory firm focused exclusively on the Asian market, is well-positioned as an optimal partner for emerging and growing companies. This includes helping companies navigate complex business regulations and achieve their long-term objectives through a strategic exit.

Established in 2001, Marcum Bernstein & Pinchuk LLP was a joint venture between Marcum LLP and Bernstein & Pinchuk LLP, a leading China-based accounting and consulting firm. The joint venture brought together the expertise and resources of both firms to provide comprehensive accounting, audit, and advisory services to clients in China and other parts of Asia. In 2022, the firm was rebranded as "MarcumAsia", reflecting more than 20 years of dedicated work in the Asia market and aligned with the recent expansion to Southeast Asia. Building upon the 20 year focus on China, MarcumAsia now has an office in Singapore due to growing client needs. According to Bernstein, the SGX is largely considered to be a pathway to the U.S. market among emerging growth companies (EGCs).

DealStreetAsia spoke to Drew Bernstein, Co-Founder and Co-Chairman of MarcumAsia, to explore some of the key challenges that businesses in Asia face and how MarcumAsia can assist them overcome these and succeed in today's ever-evolving business landscape.

Q. What are the factors that have contributed to MarcumAsia's growth over the last three decades? What gives you an edge in the Chinese market?

Bernstein: Despite a generally weak IPO market, we are seeing strong market activity in this region due to the growth of Asia-based companies, and in Southeast Asia in particular. This activity appears to be driven by two factors. On one hand, there are many U.S. investors who want to participate in the growth of the world's second-largest economy. On the other hand, many Chinese companies value the flexibility that the U.S. markets provide to access capital over time.

As for what gives us the edge, we decided early on to build a strong team on the ground in China rather than relying on third parties. We made huge investments in training the team in U.S. GAAP and SEC accounting. When my partner Neil Pinchuk and I started the company, we employed local consultants like other audit firms. But we knew early on that it would take an initial upfront investment to build the firm in a quality way and equip us with the capabilities that we need to do this kind of work.

This investment was especially advantageous during the COVID crisis. Because of the way we were structured and informed – we had a strong local leadership in place – we were able to continue growing. Even when our U.S. partners were unable to travel to China for almost three years, we were able to function effectively. In addition, we developed what I consider 'specific audit procedures' that are adapted to on-the-ground realities of China's legal and banking system. We have continued to refine the procedures to go beyond what we hope are the industry standard approaches you might apply to U.S. companies.

One of the biggest concerns that overseas investors have while investing in a market like China is whether they can trust the numbers. Thus, we are focused on being the best provider in this specific niche of auditing for Asian companies who choose to list in the U.S. market.

How do you differentiate yourself from – or how do you compete with – the Big 4 accounting firms that have a stronghold not only in the U.S. markets but across the world?

Bernstein: Our ability to work highly efficiently while maintaining the standards of audit independence is a big edge for MarcumAsia.

I don't necessarily look at us as competing with the Big Four. In fact, we consider them partners as we consult with companies that use them. They are the largest firms and leaders in our industry – 95% of our staff have worked there. The Big Four have some amazing reserves of talent and are well-suited to the large companies they support.

MarcumAsia was designed as an integrated operating model with all our partners and staff based in Asia and North America working as a single team with a 24/7 working model. All the companies we audit are Asia-based with operations in Asia.

What that means is that the partners managing the client relationship, the field audit, the technical accounting experts, and the QC team all collaborate. They resolve issues quickly and efficiently. This is important because when a company seeks to launch an IPO or perhaps complete a SPAC merger, the audit is often the "Achilles heel" of the transaction. If it is not completed in a timely manner, you could miss the window to complete a deal, and it can set you back, sometimes years.

What have been some of your key deliveries for the China market? Can you talk about some of your success stories?

Bernstein: With regards to the number of U.S. issuers from China that we audit, we rank No.2 right now in China, ahead of Ernst and Young and KPMG. We have close to 250 SEC-trained auditors based in China and some more based in Singapore. In terms of the IPO market, MarcumAsia and our parent company Marcum LLP were ranked No.1 for the number of U.S. IPOs audited in both ‘21 and ’22. This No.1 ranking continued in the first quarter of ‘23.

MarcumAsia Co-Chairman Drew Bernstein (Image source: MarcumAsia LLP)

Why is MarcumAsia now expanding practice to SE Asia?

Bernstein: I’ve worked in China since 1999, close to 25 years now, and I had never really seen the need or had the interest to move my practice outside of China. About four years ago, Singapore and Southeast Asia started to come up on the radar. When the Grab deal occurred, it caught my attention because it was the first time, I saw a company raise close to $4 billion in a SPAC merger.

This encouraged me to make a trip there. I met a lot of law firms and investment banks, and one of the first things I noticed was that practically every major law firm had an office there. That struck me as unusual because I wasn’t sure that they needed every law firm considering the size of the island-country. I was intrigued and visited a few more times before I realized and started to strongly believe that Southeast Asia would be the next wave of growth equity listings in the United States.

The region’s demographics are very different from North Asia. The growing working-age population in many of the countries is probably closer to 35 years old, compared to China where a large portion of the population is over 55 right now. In Indonesia, there has been a crossover to the middle-income status, which dramatically changes disposable income and consumption patterns. I think COVID, as hard as it was in the region, was an accelerator in driving digitalization across both consumer and B2B sectors. It also influenced MNCs to diversify their supply chain to add some resiliency.

Finally, a culture of entrepreneurship is shaking up established industries. It's the people who work on first-generation tech companies in that region that go out and then start their own businesses. Since opening the office in Singapore in May 2022, we are seeing a growing roster of clients coming from Southeast Asia.

What is the relevancy of U.S. listings to Southeast Asian businesses? Why are companies from the region now considering listing in the U.S. as an attractive option?

Bernstein: About 25 years ago, there weren't many choices for companies that wanted to list. Today, there's a whole host of choices, including Shanghai, Shenzhen, Hong Kong, and Singapore. Selecting the right listing venue is a very company-specific decision. What the U.S. offers is deep research coverage and specialized fund managers. That is a key because it may be difficult to find that expertise locally in certain sectors like technology, biotech, new energy, and green tech. There is often a greater depth of liquidity when you have coverage like that, which is important to the private equity bankers. The U.S. also has very flexible and active follow-on markets.

Lastly, I would say a lot of these companies have global strategies. Listing on the U.S. markets and getting that global recognition is advantageous to them. For example, if a Chinese company is listed on the New York Stock Exchange, that adds a lot of legitimacy to the company. These are some of the specific benefits.

What are the greatest challenges that companies face with adapting to U.S. listing requirements?

Bernstein: The companies that we're seeing in Southeast Asia have a different makeup compared to Chinese companies. Perhaps one of the most noticeable things is that many of the companies in Southeast Asia are basically spin-offs of what I consider family businesses that have grown over the years into these mega companies. A major challenge for these companies is the mental part of being able to transition from a family-owned business to a public company.

In our experience, preparing U.S. GAAP or IFRS financials and a PCAOB-compliant audit is often the steepest technical challenge. Most companies don't appreciate the depth of the disclosure and technical accounting issues that are involved and how different it is from a private company's statutory audit, which is typically a local audit but just as significant. It is a cultural change that needs to occur in order to operate a public company, especially from a family business or even businesses with a single dominant CEO or chair. Going from a position of absolute power to an effective board overnight and disclosing decisions to investors who may challenge you in a big transaction is a very different mindset.

How does MarcumAsia help IPO-ready clients to address the potential challenges and concerns they might face for a U.S. listing?

Bernstein: With regards to U.S. listings, we are No.1 right now. While we continue to see the market expanding, we would vie for representing companies that want to go public, whether they are from Asia or from China. We are actively expanding our Asian footprint and our experience there. What we have learned over the last 25 years puts us in a good position.

What we try to do with companies is to provide an initial assessment of the gap – where they are and where they need to be from a PCAOB standpoint. We start by referring companies to consultants to provide that bridge between the regulations and the requirements the company must meet today and their ability to do so.

Further, we help them understand the scope of effort that might be required to meet the reporting deadlines and the audits once they go public because delayed financial reporting is a surefire way to undermine investor confidence. One of the things I always say to companies is that if you want to be a successful public company, you better own 85% of your investors' trust and confidence.

Big picture – going public is just one step in a multi-year process of trying to realize the full potential of their business. It's just the starting gun to the race.

What are the trade-offs between going public through either merging with a SPAC or an IPO?

Bernstein: At one time, we were seeing SPACs close deals worth $300 million. Now we've seen the SPAC market come down gradually to nearly $30 million and even $10 million. I think there have been about 20 deals in the first quarter, and only about five or six of them have been SPAC deals. One of the advantages of doing an IPO is simply that there will be less dilution. Normally, in an IPO, you begin your life as a public company with at least one or more analysts covering your company. The disadvantage is that there is always a risk that you're going to invest in a lot of professional fees and other fees in preparing to list and you don't get listed because the IPO is called off. That can be very painful.

In the past, many would have argued that the SPAC was a faster and less expensive route to going public. I think this is still the case. We must keep in mind that there are probably 250+ SPACs out there right now still looking for targets. But my guess would be that, with the heightened level of disclosure and the oversight of the SEC, the price difference in cost and time is probably somewhat narrowed. The big advantage with a SPAC merger is that as long as you follow the process and clear the SEC, you're essentially guaranteed to go public. However, you may not know how much funding you've raised until the very end of the process. Both paths are worth evaluating but it's important to go into the process well-informed and choose your partners wisely.

What are some of the go-global trends you are noticing in emerging markets and companies?

Bernstein: Even as we see increasing tensions at government level, especially between the U.S. and China, I think most companies and business leaders will see an enormous benefit of some level of collaboration to draw on different strengths that each brings to the table. I've always kind of looked at China and the U.S. as having been in a 50-year marriage. If China and the U.S. were to be decoupled, my guess is, both lifestyles would be greatly diminished. Among the MNCs, we're seeing what I call a 'China plus sourcing strategy', which encourages people to want to participate in the China market. But they're also investing in other regions as well, often in Southeast Asia.

We're seeing some companies, whose roots are in China, reposition themselves as Singapore companies or setting up corporate headquarters in the U.S., even as the majority of their engineering talent is based in the PRC (People's Republic of China). These are what I consider China-hybrid models that enable them to play on the bold global stage.

What are the key geographies and industries in SE Asia, where companies may favor U.S. listings over home listings and why?

Bernstein: Generally, looking at the market, we see the largest number of potential listings coming from Singapore. Singapore is often the headquarters for companies, especially with a Southeast Asian strategy. It also has the most mature and open legal framework, perhaps followed by Malaysia. Singapore has become sort of the financial and technology capital of Southeast Asia.

Indonesia is not too far behind. It has the largest population in the region and a robust VC funding market. There are about 270 million people there right now, and the average per capita income is about $4,000. With the rise in per capita income, a lot of money goes back into the economy. From a demographic standpoint, Indonesia is high on the list. However, in Indonesia, there are some significant tax incentives that the government gives to domestic companies. Therefore, many companies tend to list on the IDX first, and then consider a secondary listing in the United States.

Vietnam is another high potential market. There is a lot of foreign direct investment pouring in there, particularly from Japan, Korea, and the United States. The country has a strong entrepreneurial spirit and a high level of technical talent. But the process of obtaining government approval to list overseas is obscure at best. I think to attract more meaningful levels of foreign investment, there is going to be a need to clear the path for liquidity there. We have also looked in places like the Philippines, Thailand and Malaysia. The region has become very interesting for us right now, and we’re adapting to serve the market.

The past year saw listing rule revamps across many Asian stock exchanges including those in Hong Kong, Singapore, and Indonesia to rope in foreign issuers. What are the implications on the region’s

capital markets and IPO landscape? Do you expect these efforts by regional exchanges could divert what would have been IPOs in the U.S.?

Bernstein: Companies have choices right now, and different markets offer different things. The U.S. market has incredibly deep and diversified sources of capital. They have the ability to do add-on rounds, which are critical for companies that are growing, especially during and post the pandemic. Lastly, especially for Chinese companies, raising say '$50 million worth of US dollars' is not the same thing as raising '$50 million dollars' worth of renminbi', which is a restricted currency. At a time when companies have these global ambitions for acquisitions, we have seen some recent deals where they were floating the GDRs from Shanghai on the Swiss exchange. There are some innovative ways for companies to be able to raise money outside of the local exchanges. One of the drawbacks of the local exchanges is the liquidity issue. That's why you've seen exchanges like the SGX having arrangements with both NASDAQ and the New York Stock Exchange, which give you the advantage of using GAAP based financial statements.

Does MarcumAsia's efforts to target clients in SEA mean relatively reduced focus on China? Is it a result of Beijing's full adoption of the registration-based IPO system this February that makes domestic listings more appealing to local businesses? Do you see a U.S. listing continuing to be relevant to China's next generation of tech firms, especially, given Beijing's continued trade tensions with Washington?

Bernstein: MarcumAsia has been at the intersection of the U.S. and China capital market for more than 20 years. China remains an important focus for our firm. The size and scope of China remains very strong. The ongoing reforms to China's domestic listing process are a tremendously positive sign, and this will remain a great option for many domestic companies there.

What I find even more compelling is that China, probably for the first time, allowed domestic affiliates of the Big Four to be inspected by the PCAOB last fall. That move has now implemented the system for listings to be reviewed by the CSRC (China Securities Regulatory Commission). These two establishments alone have the potential to resolve the enormous legal ambiguity that has hung over the status of all the listings for decades.

For the first time in 25 years, there is approval for a Chinese company with what we call a 'VIE structure' of variable interest entities to go public in the U.S. The VIE structure has never been clear, but having the approval from China – and with inspections in place – it paves a clearer path. It appears to send a strong signal that the Chinese government views the participation of overseas investors as important in promoting growth and innovation in China's economy. Today, China is producing some of the most highly educated and talented people, and we are looking to expand our expertise into these areas where resources for what we do are relatively scarce.

What are your expansion plans for Southeast Asia? What kind of companies are you seeking to attract?

Bernstein: We are looking for companies that want to grow. My philosophy is that if we can work for all good companies, then our business will be good. One of the principal parts of acceptance is to be able to sit down with the company management and get an understanding of whether they are willing to make the kind of transition it takes to go from say, a family-owned business to a thriving public company. As far as our offices and expansion plans go, we made three big steps this year for our firm. We opened an office in Singapore in May 2022, and we have been staffing it ever since. We acquired our principal competitor last year, Friedman, which almost doubled our size. Right now, we probably have about 250-300 professionals between China and Singapore. And lastly, we changed the name of the firm from Marcum Bernstein and Pinchuk to MarcumAsia, given our business plan right now and to be better represented in the region.

*As companies grow and scale, **MarcumAsia** is a resource on exit strategies and public market readiness. Please **contact us** for more information on how MarcumAsia can best support your organization as you plan for the next phase of growth.*