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The number of overseas listing filings has exceeded the total number of last year. Why do companies choose to go global?

Companies planning to go public must fully understand and strictly comply with domestic and overseas regulatory requirements and audit priorities.

Jiemian Reporter | Liu Chenguang

This year, the number of companies planning to go public overseas has gradually increased, a significant increase compared to last year.

According to data from the official website of the China Securities Regulatory Commission, as of July 5, a total of 77 companies have issued "Notices for Registration of Overseas Issuance and Listing", which has exceeded the 61 applications last year, and this is only the number for half a year.

In April this year, the China Securities Regulatory Commission issued the "Sixteen Measures for the Capital Market to Serve the High-Level Development of Technology Enterprises", which proposed to support technology-based enterprises to go public overseas in accordance with laws and regulations, implement the overseas listing registration management system, and better support the development of technology-based enterprises' overseas listing financing. At the same time, the China Securities Regulatory Commission issued five capital market cooperation measures with Hong Kong, the fifth of which is to support leading mainland industry enterprises to go public in Hong Kong.

Why are there so many companies applying for overseas listings? What are the characteristics of companies going overseas? What industries are they mainly in? What other key points need to be paid attention to?

Why is the popularity of overseas listings still high?

Judging from the current situation, the enthusiasm of companies to go public overseas continues to rise.

Drew Bernstein, co-founder and co-chairman of Marcum Asia LLP, told Jiemian that Chinese companies remain very interested in overseas listings, and that strong growth can be seen in the number of companies conducting audits and internal control work in preparation for the transition to listing.

In addition, Bernstein believes that the CSRC is now more efficient in handling review requests, everyone is accustomed to the new process, and professionals are working well together. The two main factors driving companies to go public overseas are that entry into the domestic IPO market has become more selective and focused on strategic industries that are consistent with China's core development.

However, many dynamic private companies in other industries need to raise capital. "Funds from VC and PE funds have dropped significantly, and funds that have been active in the past few years now need to harvest investments and return capital to LPs (investors) to start new funds. In some cases, companies may have promised to go public or lose control at a certain end date, so management is very motivated to go public by any means." Bernstein pointed out.

Zhang Lin, director of Huayi Xin Capital's overseas project marketing department, told Jiemian News that there are several main reasons for the gradual increase in the number of registered companies. First, the China Securities Regulatory Commission has optimized the overseas listing process, including bringing overseas listings, including the red chip listing model, into the scope of regulatory supervision, which provides companies with a clearer and more standardized listing path.

Secondly, Zhang Lin believes that the accelerated filing process has brought valuable experience and reference to companies planning to go public overseas. The demonstration effect of these successful cases has further stimulated the market's expectations for companies' overseas listings and created a good development environment for companies.

In addition, Zhang Lin pointed out that the market demand for overseas listing financing and the increase in activity, as well as the Hong Kong Stock Exchange's reform measures such as the introduction of Chapter 18A and Chapter 18C of the Listing Rules, have increased the inclusiveness of unprofitable biotech companies and special technology companies. These factors have worked together to provide favorable external conditions for companies to go public overseas and enhanced the confidence and motivation of many companies to pursue listings on overseas capital markets.

Wang Hongying, director of the China (Hong Kong) Financial Derivatives Investment Research Institute, told Jiemian that the reason why the enthusiasm of mainland companies to go public overseas is gradually increasing is that, first, relevant state departments encourage companies to raise funds overseas and also encourage companies to conduct international operations; second, the valuation level of the entire capital market in Europe and the United States is relatively high, the market funds are abundant, and the liquidity is very good. Going public at this time can obtain a relatively high premium and obtain more financing.

The current A-share primary market is in a period of adjustment, which is also a factor that drives companies to go public overseas. Wind data shows that as of July 4, 309 companies that have applied for A-share IPOs have terminated their IPOs, a figure that far exceeds that of last year. Overall, the number of companies involved in IPOs and the amount of funds raised this year have declined to a certain extent.

Regulatory agencies are stricter in screening listed companies. In April this year, the new "Nine National Regulations" were issued, which clearly stated that the IPO threshold for issuance and listing should be strictly controlled and comprehensively raised. The China Securities Regulatory Commission launched a series of "1+N" policies. The main line of the "1+N" policy system is to strengthen supervision, prevent risks, and promote high-quality development. On June 19, the China Securities Regulatory Commission issued the "Eight Regulations on the Science and Technology Innovation Board", proposing to strengthen the "hard technology" positioning of the Science and Technology Innovation Board. Strictly control the entry, resolutely implement the evaluation standards for science and technology innovation attributes, and give priority to supporting "hard technology" companies that have made breakthroughs in key core technologies in new industries, new formats, and new technologies to be listed on the Science and Technology Innovation Board.

Which industries are favored?

Drew Bernstein told Jiemian reporters that in terms of industry, the Chinese companies listed in the United States this year are extremely diverse, including electric vehicles, consumer, financial technology, technology, engineering services, etc.

Still, in his view, the only IPO of considerable size so far this year is Zeekr, which is backed by Geely and some reputable cornerstone investors. To be attractive to institutional investors, a large enough market capitalization and public offering are needed so that they can trade shares quickly. There are several other "unicorn" companies currently in the process of IPOs, but they are waiting for more favorable market conditions to start the process.

Zhang Lin introduced that in terms of Hong Kong stocks, there are 30 listed companies in the first half of 2024, among which the TMT industry (technology, media and telecommunications) ranks first among other industries, accounting for 36.7%, followed by the consumer services sector with 23.4%, and the medical and pharmaceutical sectors account for 16.7%. The real estate and construction sectors account for 13.3%.

Zhang Lin pointed out that the industry scale of newly listed companies in the Hong Kong stock market has shown obvious diversification. In addition to the large proportion of consumer services and new digital technology industries in the Hong Kong stock market, companies in the biomedical and pharmaceutical fields also account for a certain proportion. This may be related to the unique listing standards and low listing thresholds for biomedical companies in the Hong Kong stock market, such as "the leader of private oncology medical care" Meizhong Jiahe, "the first domestic autoimmune stock" Quanxin Bio, and "Shenghe Bio" which specializes in antibody cytokines.

In addition, in terms of US stocks, Zhang Lin pointed out that in 2024, a total of 30 Chinese stocks were successfully listed in the United States, including 25 IPOs, 4 SPACs, and 1 transfer. The industry distribution of newly listed companies in the US stock market in 2024 shows that the manufacturing industry leads with a share of 40%, the TMT industry (technology, media and telecommunications) ranks second with a share of 26.7%, the consumer service sector accounts for 23.3%, the financial sector accounts for 6.7%, and the education industry accounts for 3%.

"In the U.S. stock market, Chinese stocks involved in multiple industries, including consulting services, electronic devices, SPAC, security and protection services, clothing manufacturing, computer hardware, etc., showing industry diversity. The electric vehicle manufacturing industry is particularly prominent, with many companies such as Lotus, Robe, and Zeekr Auto listed, reflecting the capital activity and market potential of the industry." Zhang Lin said frankly.

Wang Jinlong, CEO of Haitou Global, told Jiemian News that there are still many companies going public in the United States, most of which are small companies in non-sensitive industries and high-tech industries, such as biotechnology companies, which are mainly the direction favored by the US market. On the other hand, the reason for listing is also related to the exit from the primary market, and it is necessary to provide exit channels for early investors.

Why do most choose Hong Kong?

Fang Xinghai, vice chairman of the China Securities Regulatory Commission, recently said that the CSRC is actively promoting and accelerating the filing process for Chinese companies to go public overseas, especially in overseas markets such as Hong Kong, and will especially focus on supporting those companies with strong technological innovation capabilities and large financing needs.

Jiemian News reporters noticed that according to the latest filing table on overseas securities issuance and listing disclosed by the China Securities Regulatory Commission on July 4, 111 companies are in the stage of being accepted and supplementing materials. According to the filing data, 83 companies plan to go public in Hong Kong and 22 companies plan to go public on Nasdaq, with Hong Kong being the most popular.

Bernstein believes that listing in Hong Kong is still an inevitable choice for many companies going public overseas. For Chinese companies considering overseas IPOs, the US and Hong Kong stock markets are attractive. Generally speaking, the United States is more suitable for companies seeking to build global brands, companies in professional industries that require deep technical knowledge, and high-growth companies that may conduct multiple rounds of equity and debt financing.

"The U.S. market offers tremendous flexibility in subsequent issuance and is the deepest and most liquid market in the world. However, for companies focused on China's consumer, industrial and financial sectors, Hong Kong may be a better choice because local investors are familiar with the brand and market environment. Hong Kong has recently made some efforts to attract industries such as life sciences, but the results remain to be seen," he analyzed.

Wang Hongying analyzed that listing in Hong Kong is a good solution in terms of comprehensive effects. First of all, Hong Kong is an international financial city, and the entire capital market system is also very complete. If a company is listed in Hong Kong, it can also gain the favor of global funds.

"Secondly, the trading rules of the Hong Kong market are relatively flexible, it is relatively easy to go public, and the cost is relatively low. Hong Kong and the mainland culture, including the economic operation, are relatively well integrated. Listing in Hong Kong can obtain support from Hong Kong's international funds and mainland funds, and gain better brand recognition."

Zhang Lin analyzed to the Jiemian News reporter that companies that choose to list on the Hong Kong Stock Exchange usually have high growth, innovation, and urgent need for funds, especially those in the early stages of development or not yet profitable. Specifically, companies in emerging technology, new energy vehicles and biopharmaceutical industries mostly choose the Hong Kong Stock Exchange. The Hong Kong Stock Exchange has lowered the listing threshold for special technology companies through Chapter 18C of the Listing Rules, allowing companies without revenue to apply for listing. At the same time, the new Hong Kong Stock 18A rules provide a green channel for biotech companies that are not profitable or have no revenue to go public.

"These companies may have previously tried to go public in other markets but failed or were delisted from other sectors. They are attracted by the Hong Kong Stock Exchange's international platform, mature mechanisms and clear rules, and see it as an ideal listing option," Zhang Lin analyzed.

The latest data statistics from the London Stock Exchange found that IPOs of mainland companies dominated the Hong Kong IPO market in the first half of this year, accounting for 94.9% of the market share in terms of proceeds, totaling US$1.4 billion, while the rest came from Hong Kong-registered issuers ($74.8 million).

Senior industry insiders pointed out that generally speaking, companies will choose the market based on the industry they are in. For example, industries such as TMT, consumer services, and biomedicine may be more inclined to choose the Hong Kong stock market because the new regulations and policies provide more favorable factors for these industries.

An investment bank sponsor familiar with the Hong Kong market pointed out that from the current situation, the current issuance valuation of Hong Kong stocks is relatively low. On the one hand, it is related to the overall low valuation of Hong Kong stocks, and on the other hand, it is related to the weak liquidity of Hong Kong stocks. "In addition, many companies listed on the Hong Kong stock market this year because it was difficult to list on the A-share market, so they transferred to the Hong Kong stock market. However, most of these companies are chain stores, and there are not many hard technology companies. The market imagination space is also limited."

What should you pay attention to when listing overseas?

For companies planning to list overseas, what other key points should they pay attention to?

"The main difficulty with cross-border IPOs remains geopolitical and regulatory tensions," said Bernstein. "It's good that the Chinese government has worked to create a clearer approval framework to allow domestic companies to list overseas. However, as the Shein example shows, very high-profile deals have now become lightning rods for some quarters - even in an apparently non-strategic industry like fast fashion."

In Zhang Lin's opinion, the main difficulties for companies to go public overseas can be divided into the following aspects.

First, the filing and review of the China Securities Regulatory Commission. According to the "Trial Measures for the Administration of Overseas Securities Issuance and Listing of Domestic Enterprises", domestic enterprises going to overseas listings need to comply with the filing procedures of the China Securities Regulatory Commission. At the same time, they must also comply with the relevant requirements and regulations of overseas regulatory agencies (such as: SEC), and pay attention to the review issues of overseas regulatory agencies.

"The current key issues of the China Securities Regulatory Commission's filing and review include many aspects, such as the compliance of the red chip structure establishment, the compliance of equity changes, the establishment and compliance of the VIE structure, trust shareholding, equity incentives, foreign investment access restrictions, qualifications and licenses, compliant operations, data security, etc." Zhang Lin said.

Second, legal compliance is also a difficult issue for companies. There are many laws and regulations involved. Due to the particularity of overseas listings, there are many issues including foreign exchange supervision, overseas investment (ODI) by domestic companies, and foreign investment.

Third, in addition to the legal aspect, overseas listing of companies also involves the issue of the organizational structure of indirect listing. The establishment of structures such as red chips and VIE has also attracted much attention from regulatory agencies. The entire process of the structure involving domestic and overseas asset transfers is also relatively complicated, which usually requires companies to spend more time and financial costs, so it is also a difficult point.

"In addition to the law, finance and taxation are also a major difficulty that companies need to overcome. Financial disclosure issues are of paramount importance, and the risks of financial fraud and related violations must be controlled. In terms of taxation, companies also have to face differences in relevant rules at home and abroad, and tax issues are interspersed in almost every step of the company." Zhang Lin said.

Zhang Lin suggested that companies planning to go public should fully understand and strictly follow domestic and overseas regulatory requirements and audit priorities. In the process of preparing for listing, companies should strictly follow regulatory trends, ensure that the information disclosed by the company is comprehensive and accurate, and provide detailed explanations and material evidence for the focus of overseas regulatory agencies and the China

Securities Regulatory Commission in order to successfully pass the audit process.

"For example, we need to ensure the authenticity and reliability of financial reports, strengthen internal management, improve information disclosure mechanisms, standardize equity structures, and improve corporate governance. In order to pass audits and go public successfully, companies should also actively communicate with regulators and cooperate with relevant departments to promptly rectify any problems found."

Zhang Lin frankly admitted that for most companies, they can seek professional intermediary agencies to solve the above problems, which can help companies explore laws and regulations, as well as financial and tax issues, and improve the company's listing plan based on the company's current actual situation, and effectively avoid related risks.

In Wang Hongying's view, first of all, there may be cultural and institutional differences when listing overseas. For example, some domestic companies that seem to have good profits may face some questions about their business models after listing in Europe or the United States, such as some environmental issues, including some issues of labor protection, etc. Secondly, listing in the US and European markets also faces the reality of listing costs, that is, the overall labor costs in Europe and the United States are several times higher than those in China.

"When listing in the United States, the red chip structure design model that was often adopted before is not necessarily recognized by relevant departments. So from this perspective, although there is a certain opportunity to list in the European and American markets, and it is mainly considered from a valuation perspective, there are great challenges in the overall operation process." Wang Hongying said.

Wang Hongying believes that first of all, companies that are listed in the US and European capital markets are best to be internationally operated companies, because cross-border operations are easy to interact with all aspects of the US

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or European market, and the entire communication will be relatively smooth during the listing process. At the same time, its profits can cover the cost of listing overseas. In addition, it is very important that some companies listed overseas will face some national security reviews, similar to Didi's previous listing in the United States. This means that after the review of relevant departments, preparations for overseas listings and implementation of specific strategies can ensure that the entire operation process is relatively smooth.