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IPO Success Factors for Tech Companies from Greater China

Cyberport Venture Capital Forum

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About Drew Bernstein, CPA

- In 1983, co-founded Bernstein & Pinchuk – now part of Marcum LLP
- Marcum BP #4 auditor for Chinese companies listed in U.S. stock markets
- Independent director and audit committee chair for NYSE and NASDAQ listed companies
- Advisor regarding capital market selection and corporate governance
- Media thought leader and published author regarding international IPO market, corporate governance, investing in China, auditing and accounting

AREAS OF EXPERTISE

International Accounting
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KEY SECTORS

Retail
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EDUCATION

Bachelor of Science Degree
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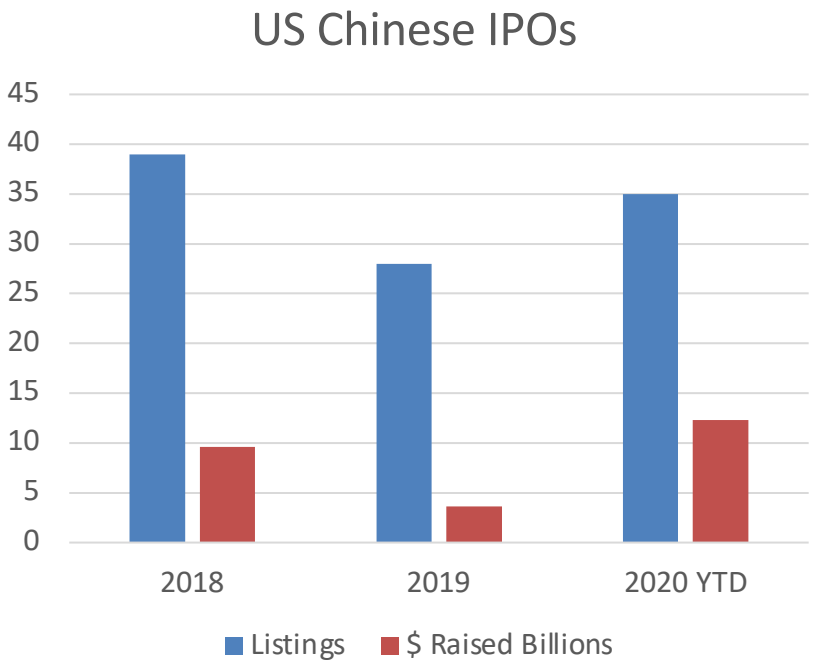
“Golden Age” for IPOs from China and Hong Kong

- China has emerged faster from pandemic than any major economy
- China and Hong Kong dominate global new listings in 2020
  - 45% of global IPOs YTD
- China and Hong Kong home to 227 out of 586 of “unicorns” in the world *
- VC-backed companies in Greater China have greater range of choice than ever before
  - HK listing rule reform 2018, “homecoming IPOs”
  - STAR Market launch 2019
  - U.S.-China listings second best year in 2020

* Hurun Report Sept 2020

U.S.-China IPOs Remain Brisk Despite Rising Tensions

- IPO proceeds YTD up 240% at $12.3B vs. 2019 *
- Best year since Alibaba's listing in 2014
- Average return of 21% vs. 38% for overall market *
- For IPOs >$100M, returns were 67% *
- Technology makes up 50% of listings *



* Renaissance/Marcum BP analysis

Chinese Equities Face Greater Regulatory Risk in U.S.

- **May 2020** – U.S. Senate passes “Holding Foreign Companies Accountable Act” targeting Chinese companies
- **August 2020** – President’s working group recommends SEC ban non-PCAOB IPOs and delist companies in three years
- **August 2020** – U.S. adds additional 24 Chinese companies to blacklist
- **September 2020** – Trump seeks to ban WeChat and force sale of TikTok based on security concerns

But U.S. Markets Continue to Offer Many Advantages

- Deepest and most flexible capital markets
  - Follow-on equity, debt and convertible offerings
- Platform to develop global brand recognition
- Density of specialized fund managers and analysts
- Access to dollar funding and acquisition currency

Success Factors for a U.S. Listing

- ✓ Story aligned with proven investment themes
  - EV, home delivery, video comms, etc.
- ✓ Management able to articulate clear strategy, reach milestones
- ✓ Strong financial reporting & internal controls team
- ✓ Mature forecasting systems
- ✓ Willingness to embrace high standards for governance and transparency

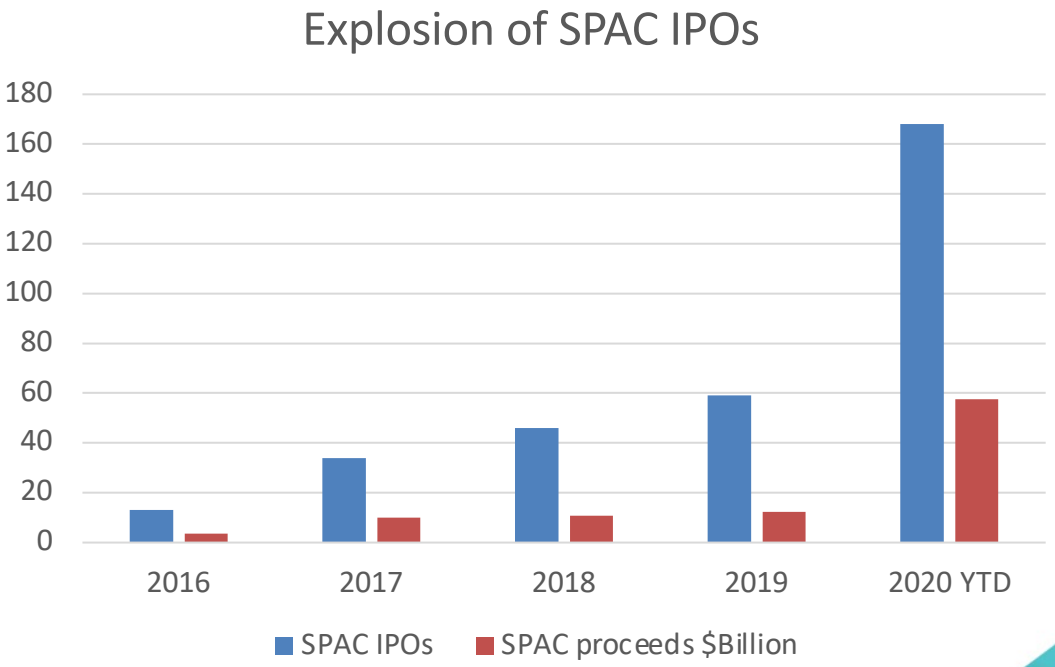
"We welcome better auditing and regulation." – Philip Kuai, CEO, Dada Nexus

Companies from Greater China Can Expect to Be Highly Scrutinized

- The lack of PCAOB inspection of Chinese auditing firms creates audit quality concerns
- Highly active short seller cadre will seek out governance and accounting lapses
- Chinese management needs to commit to excellence in investor communications and disclosure
- Avoid all appearances of conflicts of interest

SPACs | Alternative Path to Going Public

- Over 168 SPAC IPOs in 2020 YTD *
- Have raised over $57 billion dollars *
- Need to complete business combination within 18-24 months
- Many SPACs can consider merger with Asian company



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What is a SPAC?

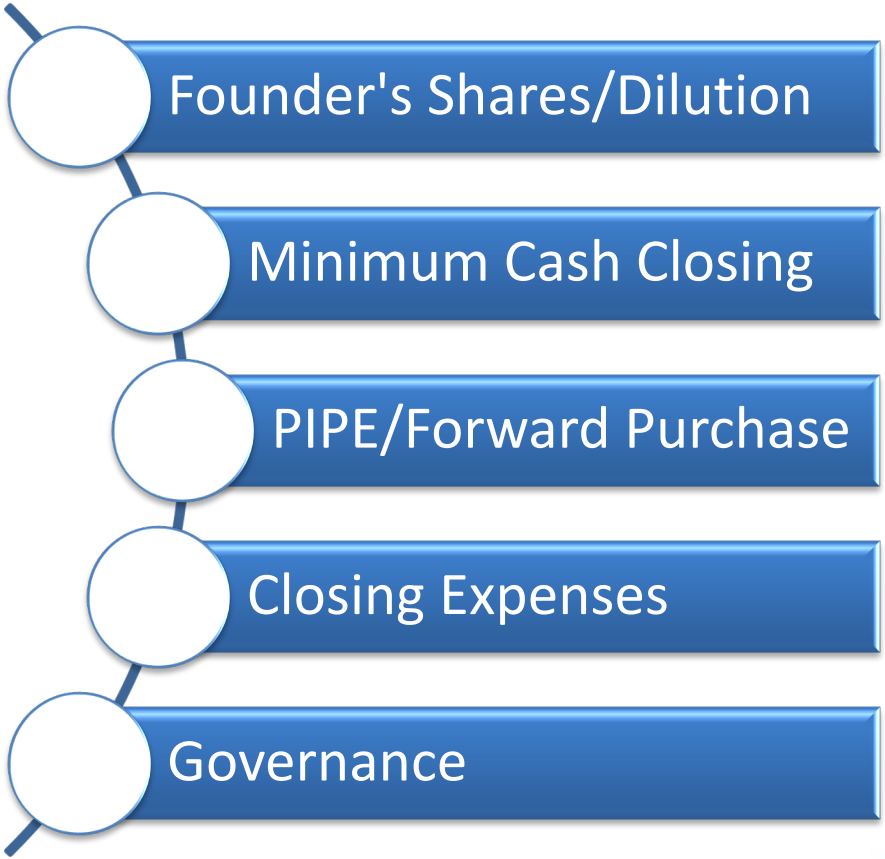
- Special Purpose Acquisition Company
- Raises capital in an IPO in order to complete business combination with a private company
- Recent SPAC sponsors include high profile hedge fund and private equity investors, VCs, tech executives
- SPACs have exploded in popularity in 2020, accounting for nearly half of all U.S. IPOs
- Competition for quality private companies expected to be fierce as capital is deployed

Key Considerations for Management

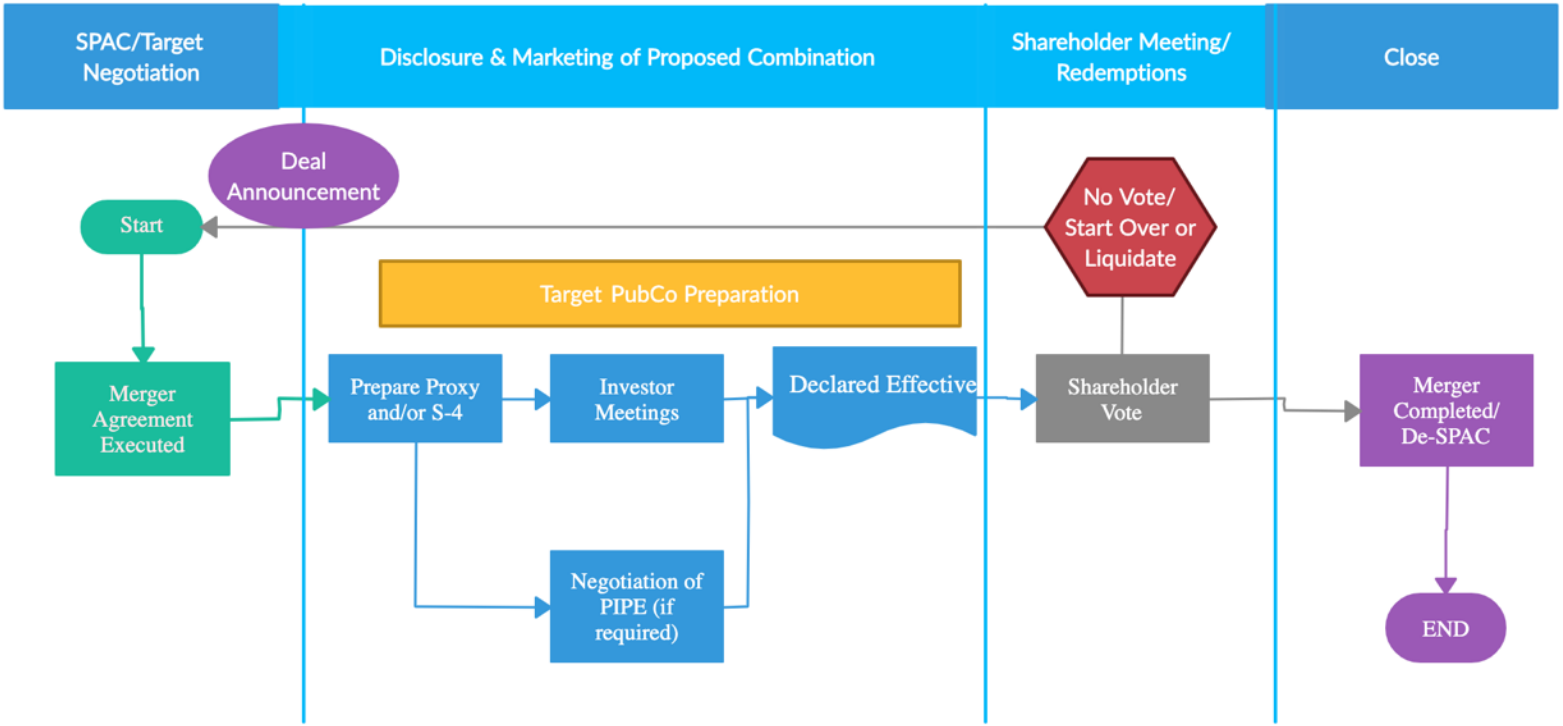
Speed to Market	• Closing in 3 months vs. 6-9 for IPO • Important during volatile market periods
Negotiated Valuation	• Valuation is negotiated directly with SPAC sponsors • May avoid "IPO discount" on pricing day
Large Pool of Untapped Capital	• >$57 billion on SPAC balance sheets – “Use It or Lose It” • If Sponsors fail to find target, cash returned to investors
Public Market Expertise	• SPAC sponsors may help to endorse investment story • Can provide public company guidance as board members

Negotiating a Successful Deal

- SPAC sponsors are typically very financially sophisticated with deep experience in M&A
- Target company must have advisors who understand SPAC structure and key deal points
- Once terms are agreed to, company will be expected to produce SEC-compliant financials, audit, and disclosure on accelerated timeframe



SPAC Closing Process



Summary

- Innovative tech companies from China & Hong Kong have more options to go public than ever before
- Despite high level of regulatory and political tensions, door remains open in U.S. capital markets for right story
- Strong appetite to own “China growth” equities by international investors
- Less tolerance for governance lapses, poor disclosure, shoddy guidance
- Explosion of SPACs in 2020 has created huge pool of untapped capital

Resources for Management

- For a copy of our comprehensive IPO guide contact me at Drew.Bernstein@marcumbp.com
- You can read my recent article, "SPACs | A Guide for Management," on the MarcumBP China Accounting Insights blog

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Questions?

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