How Chinese Companies Can Effectively Access Capital and Build Credibility with Investors in U.S., The World's Largest Market

To fully access the world's largest and most diversified pool of investors, a company should arguably be listed on a major U.S. stock exchange. Yet by itself, a U.S. listing will not necessarily be sufficient to attract and retain U.S. investors as long-term shareholders. And when a company is based in China, this is even more challenging as there are unique hurdles when communicating with U.S. investors, including differences in time zone, language, culture, and certain business practices. Fortunately, with commitment and persistence, these hurdles are surmountable.

The First Step: Entering the Public Markets

A Chinese company looking to grow and diversify its business stands to benefit greatly by entering the public market. In short, accessing additional capital can help a company innovate, create jobs, grow its business and spur economic growth in its home market.

Selection of that market is an important choice as the company will benefit from the protections and reputational brand that comes with that U.S. market. It is often said that "it is the company that you keep" and clearly being a member of a global world class marketplace is an important consideration. Listing in the US is often viewed as the "gold standard" and demonstrates that the company has met the highest of listing and disclosure standards. The NYSE has been encouraging Chinese companies to either consider the U.S. as their primary listing venue or to complement a local listing with a secondary listing in the U.S., either way enabling them to tap into the world's deepest pool of liquidity and the NYSE's global visibility platform. A Chinese company should also carefully select its outside advisors as part of this entrance. Experienced legal, accounting, banking and communications advisors will become key members of a company's team.

When choosing to enter the public market, a Chinese company certainly has a number of possible alternatives in terms of listing location. Despite the many international options, for a company looking to maximise a public listing, the U.S. capital market provides a multitude of benefits including the following:

1. A positive regulatory environment that supports the path to listing and being a public company

2. The deepest pool of liquidity in the world

3. Access to sophisticated and diversified investors

Importantly, a Chinese company can enter the U.S. either via a primary listing or complement a local listing elsewhere with a secondary listing in the U.S. This flexibility is useful and both ways offer companies similar benefits that can be leveraged in the competition for strong and supportive investors.

Building Credibility with the U.S. Investment Community

Once a company has listed in the U.S., the hard work begins – engaging effectively with the investors that now own a portion of its business. The key to meeting the challenges that exist is to develop and consistently execute a plan for employing international public company best practices and engaging proactively, openly and consistently with investors. The ultimate goal should be to build credibility with target investors by:

1. Using globally accepted and transparent reporting practices

2. Employing the highest levels of good corporate governance

3. Communicating complete and accurate material information to the investment community in a timely way

Below is a helpful hints sheet of sorts, with a selection of high level tips on how to effectively address these three important needs. By following a few simple rules of engagement, much can be accomplished and a Chinese company will likely find it is competing for capital more effectively, improving and expanding its shareholder base, protecting its listing status, and better supporting its valuation over time.

Transparency, Effective Financial Disclosure, and Strong Reporting Practices

For Chinese companies to succeed on a U.S. stock exchange, they must respond to the intense demand from the investment community for clear reporting, transparency and sophisticated disclosure practices.

Select Tips:

1. Distribute news simultaneously in China and the U.S. markets. It disadvantages U.S. investors if China based stakeholders or investors have access to material information before they do.

2. Disclose financial results and material news as frequently as possible. Investors who are kept in the dark about the status of their investment may decide to direct their focus and capital to more open and transparent companies.

3. Ensure Management Discussion & Analysis (MD&A) narratives are robust enough for investors to feel confident in assessing key metrics. And if the company makes use of any non-GAAP measures those should be fully discussed, explained and reconciled back to GAAP where appropriate.

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4. Aside from reporting revenue and profitability, disclose future cash requirements, especially any debt service requirements or any potential debt covenant milestones. This will help investors understand the proposed flow of funds and upcoming needs for use of capital.

5. Explain any changes in the capital structure as a company's ability to conduct business and operate its assets is very important to investors and there should be no hidden or obscure structures that are difficult to understand.

6. Keep the corporate website current and fully updated as a resource for all past disclosures.

7. Should there be challenging issues that arise, do not try to hide them but rather disclose and explain what has happened and how the company will address concerns.

Best Practice Corporate Governance

In the area of ethics and governance there is a high bar for companies listed on a U.S. stock exchange. Investors demand and expect ethical behaviour, well run and engaged independent Boards of Directors and management teams that are proper stewards of their capital. There is little appetite for anything less.

Select Tips:

1. Create and communicate a core set of values, business ethics, or a mission statement that drives corporate behaviour and make this assessable to the investment community in the annual report or on the corporate website.

2. Establish robust internal controls and procedures that govern how to be a compliant publicly listed company, including an internal audit function, transparent corporate governance guidelines including codes of conduct and conflicts of interest policies, a disclosure committee, etc., in order to engender investor and regulator confidence in how the company is governed.

3. Engage strong and reliable consultants, hiring accounting, legal, banking and communications advisors with global reach and experience so there is effective support in all of these areas in both China and the U.S.

Strong Strategic Communications and Investor Relations Practices

The most respected and successful Chinese companies listed on U.S. stock exchanges go well beyond what is legally required, providing transparency in their communication processes, educating and informing investors and analysts and providing accurate guidance that builds shareholder support for their investment proposition. This is sometimes not an easy task but certainly one of the more important elements in helping publicly listed companies compete more effectively for capital.

Select Tips:

1. Identify, assess and be prepared to defend any known vulnerabilities. It is always best to manage investor expectations to avoid surprises and be prepared in advance for potential questions to be raised about areas of risk and concern.

2. Do not default to the minimum legal disclosure requirements in attempting to protect the company's hoped for privacy as this will create investor confusion, analyst skepticism, declining valuation, regulatory uneasiness and shareholder exits. Over-communicating is what works best in the U.S. capital markets.

3. Understand that it can take time to educate U.S. investors on the company's business model since it in many cases will not be easily understood quickly abroad versus in China. Further, do not assume that U.S. investors will be able to grasp nuances about the company's home market and practices as significant context will need to be provided.

4. Ensure external communications tools (website, regulatory filings, press releases, conference call scripts, presentations, etc.) are comprehensive but also easy to understand, outlining to date performance as well as the forward growth strategy so the investment community has a roadmap to follow. Consideration should be given to a U.S. based communications spokesperson/firm.

5. Make significant time for attendance at industry conferences and during non-deal roadshows so that information can be communicated directly to investors in person in the time between quarterly earnings releases.

6. Should a significant business transformation be underway or there is a crisis of some kind, communications becomes all the more important and aggressive efforts to educate the investment community should take place.

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A Win-Win Situation

To be sure, the choice of how to enter the U.S. public markets is a critical one and the investment community demands a great deal from listed companies – and there are no short cuts to addressing investor expectations for a transparent and fully communicative approach.

But the reward for Chinese companies that collaborate with world class partners and follow expected policies and practices and these suggested tips for engagement are most usually rewarded with a sophisticated investor base and a more stable valuation that ideally expands over time in concert with a growing business. And this is a win-win situation – for both the company and the investors that are placing their bets on it.

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