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Wall Street chases China unicorns as IPOs lose shine for US firms

After WeWork debacle, Airbnb becomes latest to lean toward direct listings

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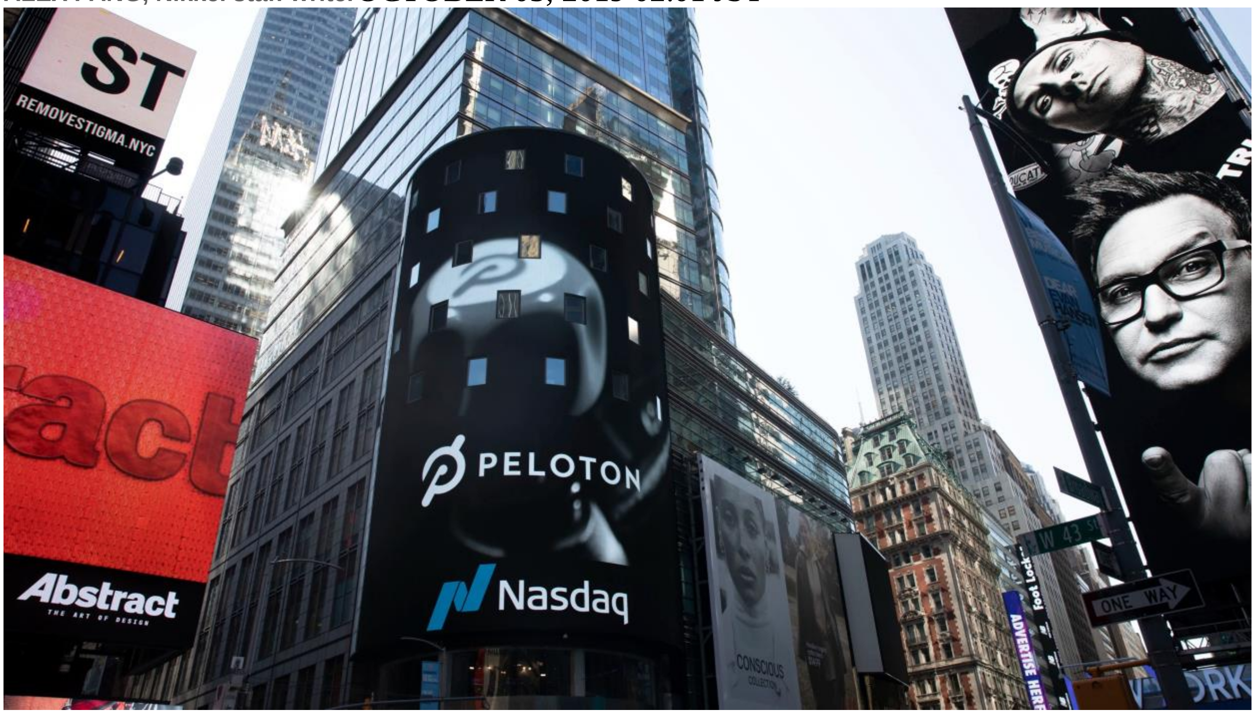

Peloton's logo is displayed on the Nasdaq MarketSite in New York following its IPO. The fitness company's stock slumped on its first day of trading. © AP

NEW YORK -- The postponed stock market debut of WeWork's parent company has prompted Silicon Valley startups to consider the advantages of a direct listing over a traditional initial public offering, a shift that could leave Wall Street banks more dependent on Chinese unicorns.

Venture capitalists such as Sequoia's Mike Moritz and executives from tech companies including Spotify and Slack gathered for a private meeting Tuesday in San Francisco to discuss the merits of direct listings, a method referred to at the event as "a simpler and superior alternative to the IPO," an attendee told the Nikkei Asian Review.

Airbnb, which this month announced it will go public in 2020, is also leaning toward such an approach, Bloomberg reported Tuesday. The short-term room rental startup is valued at over $30 billion.

A direct listing, which does not involve issuing new shares, allows a company's existing investors to trade their holdings on a public market in pursuit of more liquidity. The approach also lets the company skip hefty fees owed to investment banks.

But while direct listing has emerged as an option for American startups, Chinese unicorns are less likely to take that approach, as U.S. investors are less familiar with them.

"For Chinese companies, they are in need of the investment banks' services," said Drew Bernstein, co-managing partner at MarcumBP, a New York-based advisory firm serving Chinese companies going public in the U.S. "They help promote the company's stock and help you get investors."

The Airbnb logo is seen under the glass Pyramid of the Louvre museum in Paris. The room rental company aims to go public in 2020. © Reuters

Chinese companies "have God knows how many different markets over there in China right now, but one of the reasons they keep coming to the United States is we have very deep, diversified sources of capital here," Bernstein said. "Those companies are looking for capital," and a direct listing would be unable to provide that.

Underwriting Chinese IPOs already represents an important business for American investment banks.

Liz Myers, head of global capital equity markets at JPMorgan, said she regularly goes "unicorn hunting in China."

"I go probably four to six times a year over to Hong Kong and China, meeting with companies who are interested in raising capital either over there or, often, in U.S. markets," the investment banker said at a September event in New York.

China's most anticipated IPOs are those of ride-hailing platform Didi Chuxing and TikTok parent ByteDance, which Myers said "everyone is chasing."

But political risks have emerged around U.S.-traded Chinese companies, as the world's two largest economies remain locked in a prolonged trade war. The Trump administration is considering ways to limit American investment into Chinese companies, including blocking new Chinese listings in the U.S. and delisting Chinese companies already trading on American exchanges, it was reported Friday.

New York-listed Alibaba Group Holding plunged on the news but rebounded this week after the Treasury Department said no active plans exist to delist Chinese companies.

Slack, a San Francisco-based collaboration app, went public through a direct listing in June, following in the footsteps of Swedish streaming giant Spotify. Both companies were already household names with ample investor interest.

Silicon Valley's growing recognition of the unconventional listing method signals rising skepticism among the U.S. tech community about standard IPOs, which not only dilute existing equity but also can cost companies tens of millions of dollars in underwriting fees.

This year's $8.1 billion IPO by Uber Technologies and the recent botched listing attempt by WeWork's parent also show that even the backing of investment banks does not ensure strong results for private investors with an existing stake in the companies.

Nikkei staff writer Yifan Yu in Palo Alto, U.S., contributed to this report.