

# FORTUNE

## Why a Rush of Chinese Companies Are Planning U.S. IPOs This Fall

<https://fortune.com/2019/11/05/chinese-companies-ipos-in-america/>

Drew Bernstein, Co-Managing Partner, Bernstein & Pinchuk was quoted regarding the robust Chinese IPO pipeline slated for the U.S. markets.

By  
Lucinda Shen

November 5, 2019

The Nasdaq and NYSE are saw a spate of Chinese IPO filings in October. JOHANNES EISELE—AFP VIA GETTY IMAGES

The IPO market has been relatively muted since office-sharing firm WeWork withdrew its filing at the start of [October](#). But one source of IPOs has been unexpectedly strong: Chinese companies looking to list on U.S. exchanges.

At least nine Chinese companies filed for an IPO in the U.S. in the month of October including the world's second-largest maker of bitcoin mining materials, Canaan Creative, according to Renaissance Capital, a firm focused on IPO research. Other companies that have filed include, on the Nasdaq: drone-maker EHang Holdings; real estate rental platform Q&K International; Diagnostics provider AnPac Bio-Medical Science; crypto mining firm Canaan on the Nasdaq; and real estate marketplace FangDD. On the NYSE there is consumer debt collector YX Asset Recovery; online market place for residential rentals Phoenix Tree Holdings; Used car loan platform Meili Auto; and Audio platform LiZhi.

Canaan, the largest deal of that group, said it plans to raise some \$400 million through an offering, though that figure is likely to change. Of the nine companies, only one, FangDD, is currently trading.

A calendar clash may explain why so many firms are trying to get deals done now. December is typically a quiet month for Western markets due to the string of holidays that come with it. On the other side of the Pacific though, Chinese New Year takes precedence. That holiday is coming somewhat early this year on Jan. 25. "Chinese New Year is earlier this year, so if [a deal] doesn't happen now, then it might not happen until March—and that comes with a lot of uncertainty on the markets," said Ron Cao, founding partner in Sky9 Capital, an investor in online real estate marketplace FangDD.

The rush is a bit of a surprise however, as overall fewer Chinese companies have sought to IPO in the U.S. this year, with about 18 having listed compared to 26 in the same period last year. And while 2018 was a blockbuster year in terms of the \$8.9 billion in capital raised thanks to megadeals including Pinduoduo and IQIYI, so far in 2019, such deals have raised \$2.9 billion so far, per Renaissance.

Some Chinese companies even seem satisfied with fetching less than top dollar. "In a 'normal' market, could this have priced higher? Maybe," said Cao. The company raised \$78 million in an IPO on the New York Stock Exchange on Friday, with the deal pricing below the anticipated range and share count. "But we have got to move forward and perhaps take a lower valuation to let us get to the next stage of development. Most tech IPOs have not done well because it is a price discovery between the private and public markets."

It's not been the best year for Chinese companies seeking to list in the U.S. Since the start of the year, the 18 Chinese companies that have gone public in the U.S. have shed about 19% in value on average of their value compared to the 1.4% loss experienced by tech IPOs, according to Renaissance. Many Chinese companies seeking to go public in the U.S. are unprofitable tech firms that may have high growth potential—a combination that hasn't proved popular with investors of late given the fates of WeWork, Peloton and Uber. Now, investors are growing more wary of the "fail fast" directive that has driven companies to barrel through cash in the hopes of building scale as quickly as possible.

With many market watchers worrying that the U.S. economy may tip into recession in 2020, some companies may be looking to stockpile capital now in the hopes of lasting [through a downturn](#). Indeed, while [U.S. consumer](#) spending still appears healthy, Chinese consumers are closing their wallets and helped slow economic growth in that country to a near three-decade low of 6% in the quarter ending in September.

"There is concern about a recession globally while China is in an economic slowdown—a U.S. IPO allows companies to raise U.S. dollars now and in the future," said Matthew Kennedy, Senior IPO Market Strategist at Renaissance Capital.

For Chinese companies, U.S. bourses are still considered highly liquid and highly attractive to potential listees because it can help boost a company's reputation and help attract management talent to trade on a U.S. exchange.

"The environment doesn't change the need for money," says Drew Bernstein, who helps advise Chinese companies in the IPO process in his position as co-regional managing partner at Marcum Bernstein & Pinchuk.

The flurry of filings comes despite [trade tensions](#) as well as the Nasdaq's attempt to crack down on the smaller IPOs could impact Chinese companies, according to [Reuters](#). The Nasdaq has sought to tighten listing restrictions by raising the trading volume requirements, and said in June that it may delay listings of companies that lack key personnel, such as shareholders or executives, with connection to the U.S. While those

changes and statements did not explicitly call out Chinese companies, most foreign companies listing in the U.S. do tend to be from China. In June, the bourse also said it may delay the listing of companies that don't have key personnel, such as shareholders or board members, with U.S. ties.

At least one more Chinese company that everyone will be keeping an eye on?  
SoftBank-backed CloudMinds has filed for an IPO in the U.S. to raise [\\$500 million](#).