

## Banning The Shein IPO Is Un-American

By: Drew Bernstein

Heading into 2024, the most anticipated IPO on the U.S. exchanges was said to be Shein, the fast-fashion juggernaut that has upended the industry with an unending stream of low-cost, trendy clothes and an army of social media influencers who celebrate their #SHEINhauls stuffed full of tops, skirts and jewelry for less than the cost of lunch.

It was widely reported that Shein filed confidentially with the Securities Exchange Commission (SEC) in November 2023 for an IPO with an anticipated valuation as high as \$90 billion. This would make by far the largest deal on the calendar for this year while signaling that the American capital markets were back in business after two years of anemic offerings. Shein has many of the markings of a blue-chip new listing:

- The brand has a fanatical following among young female consumers;
- It is acknowledged as an industry innovator that has disrupted the fast-fashion model pioneered by H&M and Zara's owner, Inditex;
- Shein is highly global, with sales in over 150 countries and its corporate headquarters in Singapore;
- And it has reportedly been profitable for multiple years, with profits doubling to over \$2 billion in 2023, according to the Financial Times.

In any sane era, this would be the type of capitalist success story for which U.S. exchanges would roll out the red carpet and that institutional investors would appraise carefully as a potential core holding.

Instead, prominent U.S. Senator Marco Rubio sent a letter to the SEC demanding that the agency block the IPO unless Shein provided “enhanced disclosures” about the risk of its operations in China. Because the company was initially founded in China and

relies upon Chinese suppliers for most of its manufacturing, Rubio argued that it posed an extraordinary risk to U.S. investors. “It’s reasonable to ask whether any company so closely tied to an adversary nation should be able to raise funds in our capital markets,” he wrote.

For now, the company’s filings with the SEC remain confidential, no date has been set for the IPO, and Shein is reportedly in discussions with the London Stock Exchange about moving its IPO across the pond. Rather than rattling sabers, Jeremy Hunt, the UK’s Chancellor of the Exchequer, met with Shein's Executive Chairman, Donald Tang, to encourage the company to list on the London Stock Exchange.



SUQIAN, CHINA - FEBRUARY 26, 2024 - Illustration Shein considering a London IPO instead, Suqian, ... [+]FUTURE PUBLISHING VIA GETTY IMAGES

## **SEC's Job Is Disclosure, Not Bans**

Banning a U.S. IPO for Shein sends a concerning message about America's commitment to disclosure-based capital markets and its aspirations to be the home for the world's most innovative companies.

Quite simply, the SEC's role is not to pass judgment on the suitability or valuation of any IPO. Instead, through the registration process, the SEC diligently ensures that all relevant material information, particularly the investment risks, is fully disclosed to investors through the prospectus. This flexible and transparent approach to new listings has made the U.S. markets the gold standard.

Shein's critics (and it has many) accuse the company of a litany of bad behavior. The company, for its part, argues that it has made progress in addressing these issues and is being unfairly targeted. What is undeniable is that as a U.S.-listed public company, Shein would be subject to a much greater degree of disclosure and liability than if it remains private or listed in London, Singapore, or Hong Kong.

## **Copycat Designs**

Shein churns out 10,000 new designs daily, starting with production runs of just 100 and scaling up rapidly in response to "demand signals," including orders and social media likes. This methodology gives consumers the ability to drive design and production decisions directly, and the logistics machine that enables Shein to respond immediately to ephemeral consumer taste is the "secret sauce" behind its hyper-fashion model.

Operating at this velocity, Shein has frequently incurred charges of infringing on others' designs, with nearly 100 copyright infringement lawsuits filed from brands, including Ralph Lauren, Oakley, H&M and Uniqlo. Independent designers have accused the company of poaching their work and hiding behind a maze of interlocking corporate entities to avoid responsibility.

As reported by Forbes, the company claims that it makes extensive efforts to prevent infringement and has launched Shein-X to enable almost 3,000 emerging designers and artists worldwide to sell their designs using the Shein platform. As a U.S.-listed

company, Shein would offer a clear target for litigation and have a strong vested interest in avoiding the reputational damage of pirated designs.

### **Disposable Fashion**

Shein, along with other fast-fashion brands such as Zara and H&M, has been criticized in the media for making an outsized contribution to global warming by producing low-cost, disposable outfits that may be thrown out after being worn only a few times.

The company claims that Shein's demand-based production model enabled it to reduce the environmental impact associated with excess inventory and that its carbon emissions compared favorably with those of other fast-fashion peers. According to the Shein website, the company set ambitious goals to reduce its carbon footprint by 25% and transition 50% of its clothing to sustainable materials by 2030.

As a public company, Shein would need to regularly report on its progress toward those goals and face liability for any materially misleading statements. Environmentally oriented shareholders and rating agencies could pressure Shein for any shortfalls.



Ontario, CA - October 19: Shoppers Ashley Sanchez, center, of Fontana, poses for her friend Joscelin ... [+]LOS ANGELES TIMES VIA GETTY IMAGES

### **Chinese Government Influence**

China hawks, such as Senator Rubio, have cited the biggest reason for banning Shein's IPO as suspicion that the company has not outgrown its roots in China. Even though Shein earns no revenues in China, it is headquartered in Singapore and has an increasingly international senior management team.

To bolster this case, critics note that Shein sources most of its clothing from China and that the company reportedly sought clearance from China's CSRC to list overseas. From my view, when it comes to leveraging the China supply chain, the same statement could be made about AAPL +1%, a quintessentially American company.

Given that Shein has several operating subsidiaries in China, its decision to seek clearance from Chinese regulators could be viewed as a prudent decision. Such a move

could protect American investors and its existing shareholders from the type of disaster that befell Didi Chuxing after its New York Stock Exchange (NYSE) IPO in 2021.

Again, if its SEC prospectus ever becomes public, Shein would be required to disclose its links to the Chinese Communist Party (CCP) (if any) and the risks it is subject to under Chinese laws. If the IPO is canceled, we will never know.

### **Moving Into the Sunlight**

For all these reasons, Shein's critics would be much better served if the company were to list in the United States rather than a venue with lighter disclosure requirements and a less rigorous civil litigation regime.

For the company's part, Shein's founder and CEO, Yangtian "Sky" Xu, may need to be more active in shaping its brand rather than feeding perceptions that it has something to hide. While he has assembled a credible team of public facing executives - namely Donald Tang, executive chairman, and Peter Pernot Day, head of strategic and corporate affairs - Xu is a reclusive figure who has gone to great lengths to avoid the attention typically showered on Chinese tech CEOs.

That Shein's CEO has managed to turn the glamorous global apparel industry on its head while remaining largely unknown is astounding. But preserving that same degree of anonymity while pulling off the largest IPO of the year may be a dream beyond even his grasp.