

The Paradox in Asia's Tech Sector – Need to Own, Reluctant to Hold

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BRUNSWICK

Our survey of global investors and analysts reveals that, while appetite to invest in Asian technology companies is high, investor trust is low

Chinese and other Asian companies' ability to tap capital markets depends on one critical non-quantitative factor: *TRUST*. If you have it, you have a "license to grow" and can achieve better valuations and liquidity, a lower cost of capital, more credibility and improved resilience. If you lack it, you can spend all your time battling the naysayers and doubters, fighting to get noticed for the right reasons.

In the last 20 years, Chinese and Asian tech stocks have had a rocky romance with Wall Street and stock markets in general. Exuberance has marked many IPOs, but the highs have been counter-balanced by lows

including accounting and governance scandals, declining valuations or persistent discounts, and privatizations. Today, there is robust global demand for tech IPOs, but much of the money investing in the sector in Asia is blindly following the huge market opportunity and momentum, particularly in China, rather than taking the time to understand individual companies. In short: demand is high, but confidence is low.

Yet, a new wave of big and arguably more sophisticated Asian technology companies is coming to the market. The stakes will be higher, and the competition will get fiercer, as each

company tries to overcome the trust deficit for itself in order to attract and keep high quality investors.

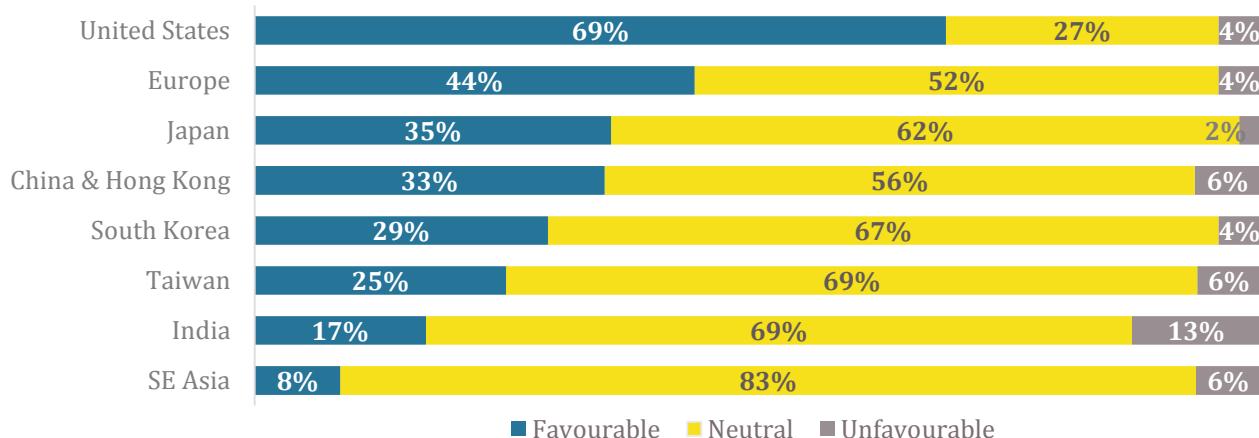
Probing the reasons for the trust deficit in Asian tech, in order to offer strategic advice, is the reason why Brunswick carried out an online survey in late 2016 of over sixty global institutional investors and analysts to gauge market perceptions of listed and unlisted players. Our identification of precise gaps in trust and misunderstanding confirm what we know from experience to be true, but offer more data, depth and clear insights that point to the way forward.

Key Findings

1. Asian tech companies enjoy much less investor goodwill than Western ones

Nearly 70% of respondents regard U.S. tech companies favorably, versus only 33% regarding China and Hong Kong tech companies as such, and even lower numbers feeling favorable toward TMT companies from Southeast Asia (8%) and India (17%). Most investors take a neutral stance.

Q: To what extent do you have a favorable or unfavorable impression towards TMT companies that come from the following places?



2. Confidence in corporate governance standards and financial reporting in Chinese TMT companies remains low

A majority of respondents are not confident in the corporate governance (60% not confident) or financial statements (52% not confident) of Chinese TMT companies.

60%
not confident in
corporate governance
of Chinese TMT
companies

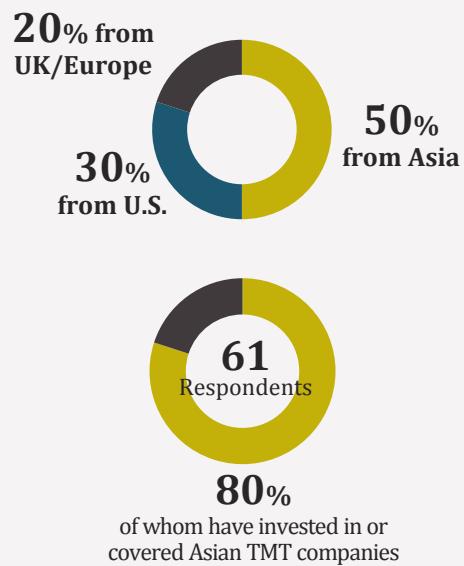
57%
don't think Chinese
TMT IR meets global
standards



52%
not confident in the
financial statements
of global Chinese TMT
companies

Methodology

In November 2016, Brunswick Insights, our professional research division, carried out an online survey of global institutional investors, and buy-side and sell-side analysts, including those from top tier investment banks, high quality Asian and global securities firms, European asset managers and US boutique TMT investors/advisors.



3. Chinese tech companies suffer from negative top-of-mind associations

Top associations with Chinese TMT companies were “aggressive, high growth, opaque, and poorly governed,” in that order. This compares to the top associations of Western TMT companies as “innovative, high growth, risky and aggressive.

TOP ASSOCIATIONS

- 1. Innovative**
- 2. High growth**
- 3. Risky**
- 4. Aggressive**



Global TMT companies

- 1. Aggressive**
- 2. High growth**
- 3. Opaque**
- 4. Poorly governed**



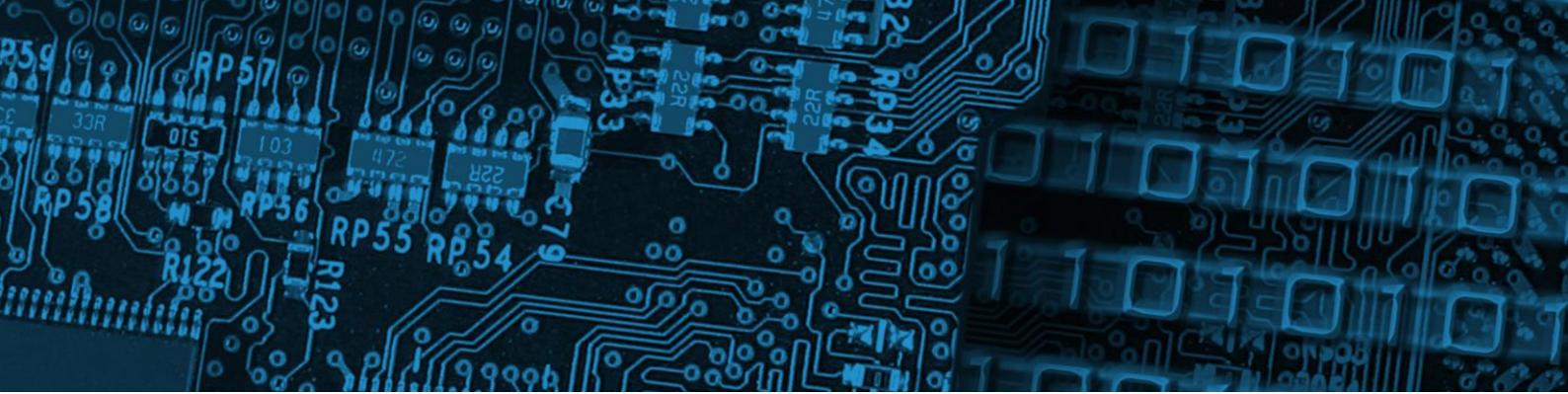
Chinese TMT companies

4. Opaqueness and poor disclosure are main reasons not to invest

Key barriers to investing in a Chinese or Asian tech company are poor transparency and disclosure (67% would avoid investing for this reason), regulatory uncertainty (56%), a perception of being too closely linked to government (42%), and a suspicion of unethical business behavior (33%).

Q: What would prevent you from investing in the Chinese / Asian TMT sector (listed companies or IPOs)?

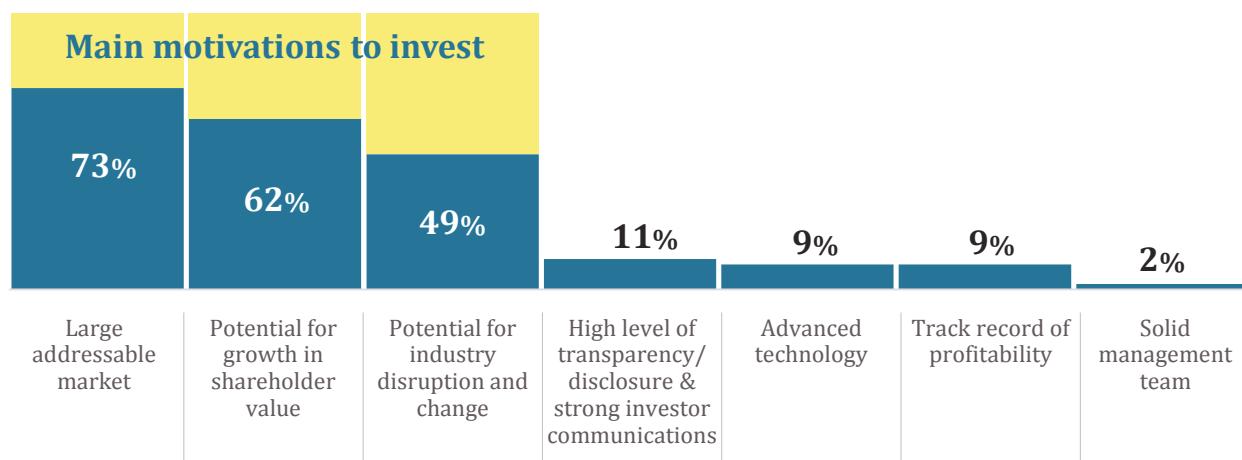




5. Investment in Asia tech is largely driven by macro factors

Conversely, although the main motivations by far to invest in Chinese and Asian TMT companies are the large addressable market and potential for growth and disruption, the next most important “swing” factor is high levels of transparency, disclosure and strong investor communications.

Q: What would be your main motivations to invest in the Chinese / Asian TMT sector (listed companies or IPOs)?



6. Increasing Investor Relations efforts by key players benefit the entire industry

On the positive side, **55%** of those surveyed believe sentiment toward the Asian TMT sector has improved over the last year, largely driven by visible IR efforts of large, well-known companies including Alibaba and Tencent.

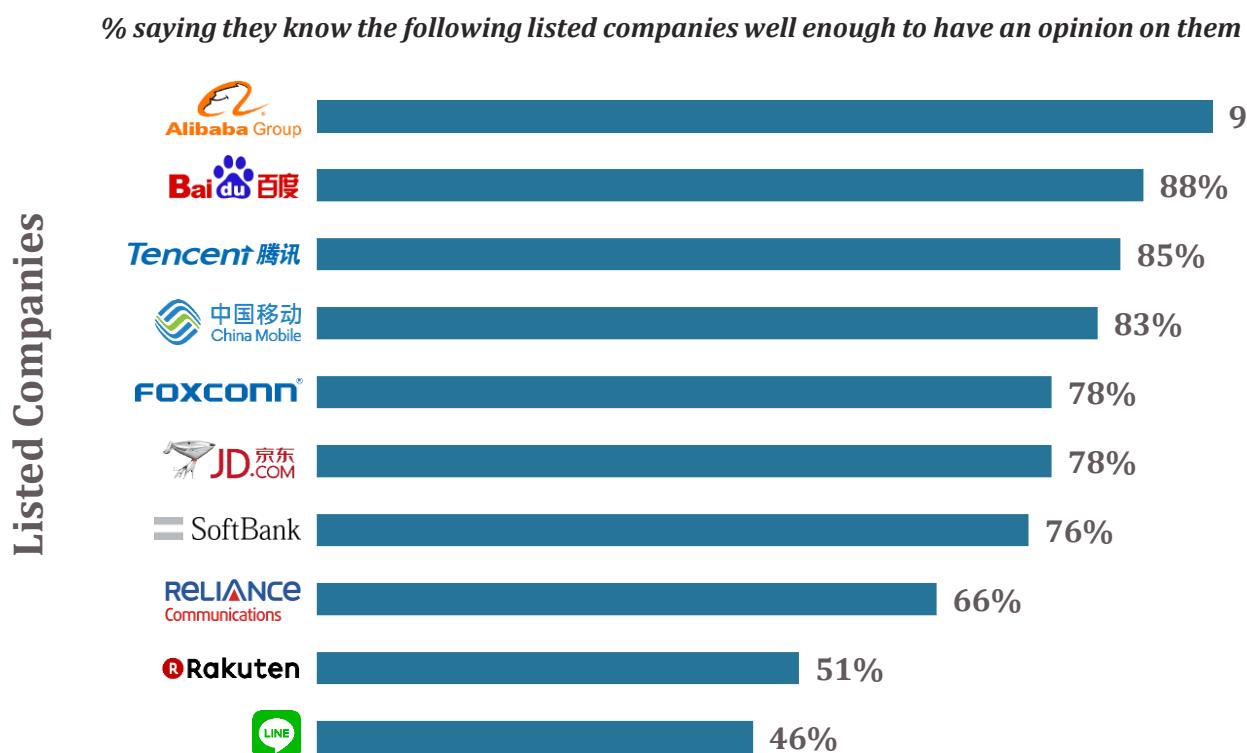
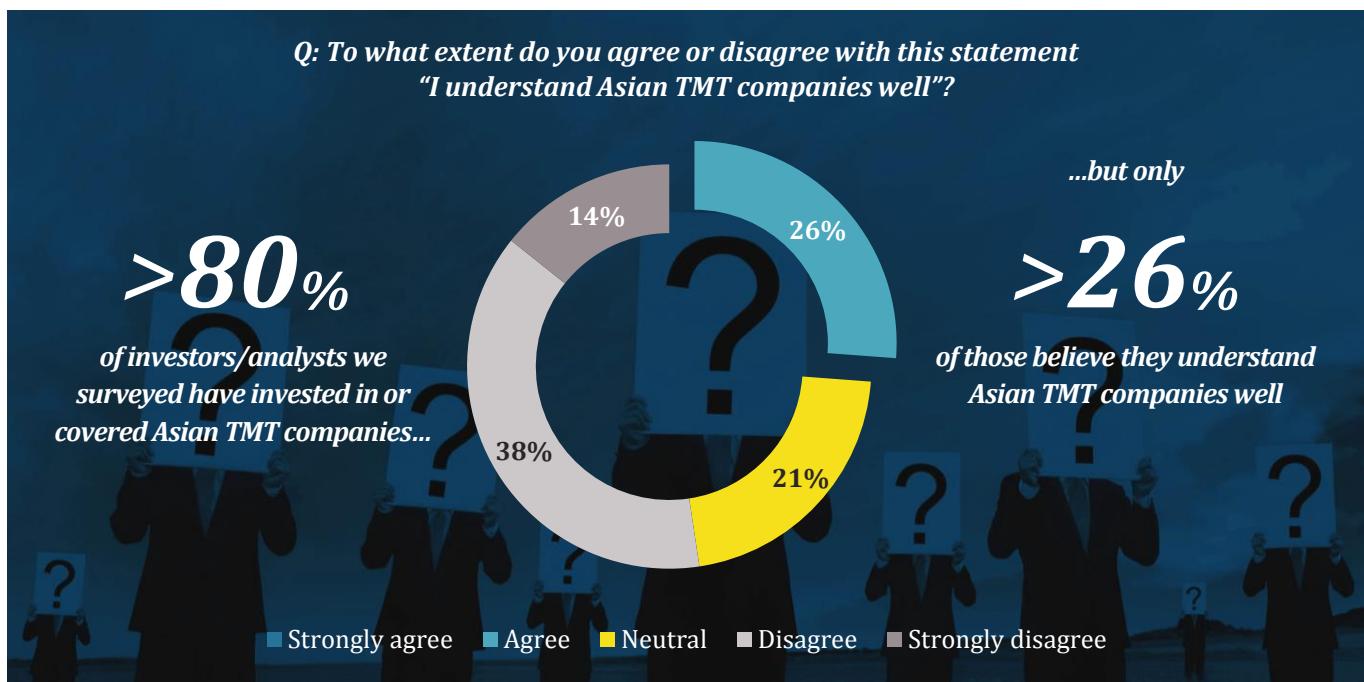
7. Trustworthiness varies widely by company

Very well-known global names including Softbank, Tencent, China Mobile and Alibaba lead the pack in terms of trustworthiness among Asian peers, but overall levels of trust are low compared to Western levels.



8. In-depth understanding of Asian tech companies remains low – even among investors

Although over 80% of the respondents have invested in or covered Asian TMT companies, only a quarter of them say they know the sector well, and when asked about individual publicly-listed names, quite a lot don't know enough to have an opinion. Listed Chinese TMT companies are better understood than those from Japan, Southeast Asia and India.



8,338,000	9,330	4,443	696.63	3.61	0.98		0	3.51	0.12	0.06	0.07	44.88
1,470,500	3,229	873	15.85	1.98	0.26	0.07	0.14	13.04	12.91	10.36	3.18	59.76
5,238,400	7,569	1,921	20.30	1.44	0.59	0.05	0.07	7.17	7.13	4.48	3.42	67.58
400	85	9,288	11.98	2.06	0.46	10.00	17.95	14.79	17.88	12.9	4.61	21.09
294,400	227	741		0.84	1.22		0	-5.76	-14.29	-59.47		35.99
26,500	207	1,727		1.24	2.66		0	-6.7	-24.8	-20.82		40.41

9. For private, not-yet-listed companies, building a trusted reputation is even more challenging

Very low levels of name recognition and understanding, compounded by the absence of global direct experience with their products and services mean that Asian TMT “Unicorns” are very well represented in Asia, but global investors barely know them. A few huge private companies are breaking through, including Huawei, Xiaomi, Ant Financial and Didi Chuxing.

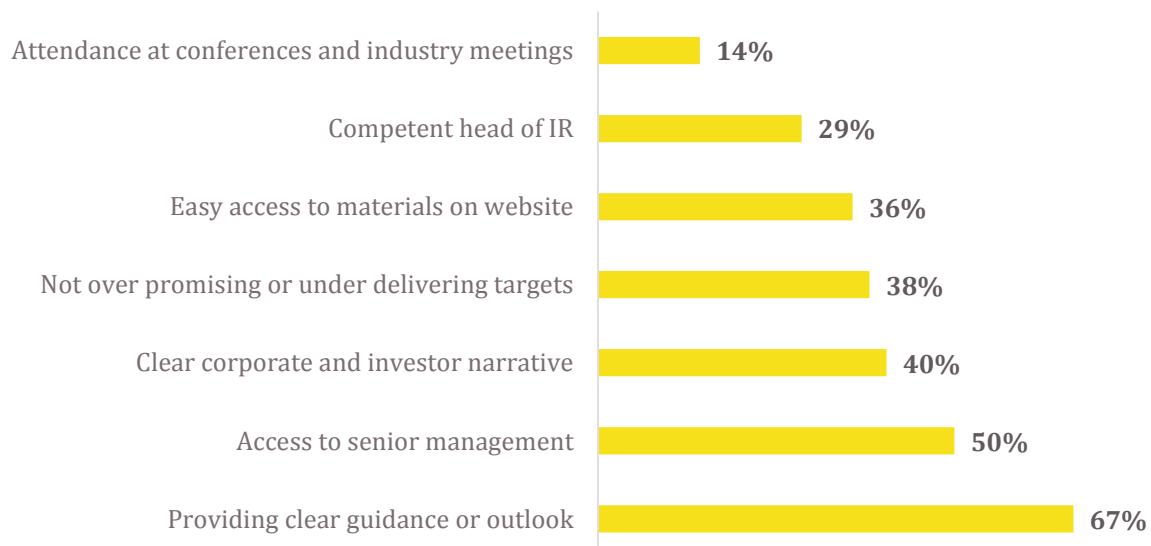
% saying they know the following unlisted, private companies well enough to have an opinion on them



10. Investor Relations can go a long way to help overcome low levels of trust and recognition

The path toward greater trust and understanding is clear. Investors and analysts call for clear guidance or outlook (67%), better access to senior management (50%), a clear corporate and investor narrative (40%), delivery in line with guidance (38%), and easy access to materials online (36%). A competent head of investor relations (29%) and participation in conferences and industry meetings (14%) complete their wish list for Asian TMT companies' investor communications efforts.

Q: Which are the top three most important elements in investor communications for Chinese TMT companies that are listed?



Implications and Recommendations

This survey offers painful but helpful evidence that this industry suffers from low levels of respect and recognition. It's in the best interests of companies and their advisors to work together to rectify how the industry is perceived.

What clearly stands out from the findings is that most of what is required to build trust and confidence in individual TMT companies in Asia is within their own control. No one doubts the market size and potential in Asia; rather, the gaps in trust relate to areas that companies have a remarkable ability to influence or improve. These come down to explaining the industry, market opportunity and company strategy, reporting on progress (and setbacks), managing expectations, and addressing challenging questions. The ones that do a very credible job with these basics should be rewarded with higher levels of recognition, understanding, valuation, and respect.

We particularly advocate emphasizing strengths in areas where investor expectations may be low. Our research indicates that investors may not be expecting, and therefore will be pleased to learn about: strong management teams, advanced technology and innovation, track record of profitability, and a commitment to high standards in investor relations.

Based on our experience, companies that want to successfully close the trust gap should follow a few key steps on their journey from being little understood and not well-trusted businesses to industry leaders with a clear profile and compelling investment proposition:



1. *Make your company "communications ready"*

Developing a clear corporate and investor narrative at an early stage and providing access to compelling bilingual materials online, including videos and infographics, is an effort that pays off in the long term.



2. *Develop a governance narrative*

In addition, a 'governance narrative' that directly explains board oversight of management and representation of broader shareholder interests, is a valuable factor in the trust equation.



3. *Go on the road and engage in person*

For both listed and unlisted companies, there is no substitute for direct access to senior management, and investor relations officers are critical go-betweens who can make or break a company's reputation with the market. Identifying current and/or target investors, understanding their concerns and priorities, and addressing them head-on and in person will go a long way in positioning your company as an investment of choice.



4. *Build a media profile and good stakeholder relationships early on*

Winning the trust of investors and analysts is a long-term effort. Unlisted companies should work to build up their global profile and credibility well in advance of an IPO. In addition to engaging directly with investors, media engagement should be part of a financial communications strategy from day one.

At the end of the day, active investing decisions are driven in part by gut feeling. Trust and understanding may be intangible goals, but when well cultivated, they are lucrative assets. Very trustworthy companies have better valuations, better liquidity, lower cost of capital and better credibility on the global stage.

Brunswick Group

Brunswick is the global leader in financial and corporate communications, providing senior counsel to clients around the globe on critical issues that affect reputation, valuation, and business success.

For more information and detailed findings, please contact the TMT Asia team at tmtasia@brunswickgroup.com or get in touch with individual team members at right.

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