



MarcumBP – Tsinghua University
China CEO Survey:

Capital Markets and Going Global

NOVEMBER 2019

ABOUT THE SURVEY

Marcum Bernstein and Pinchuk LLP (MarcumBP) conducted its first **Survey of Chinese CEOs and Founders and Going Global** in partnership with [Tsinghua University](#). Tsinghua is one of the most prestigious research universities in China and its alumni includes many of China's academic, business and government elite. The survey assessed the sentiments and decisions of more than 1,200 Chinese C-suite executives. This unique survey was conducted in tandem with Tsinghua's bi-annual **Index of Chinese Entrepreneurs Confidence in Development**, which is considered one of the most accurate and far-reaching surveys of business sentiment in China.

HIGHLIGHTS

- China's CEOs remain deeply committed to global engagement, but the focus has shifted from the United States to Southeast Asia, Europe, and Africa.
- Strong interest in going public despite uncertainty in capital markets and trade tensions.
- 28% see profitability as a key to attracting investor attention; revenue growth still reigns supreme.
- 71% of CEOs highly interested in pursuing acquisitions as part of growth strategy.

EXECUTIVE SUMMARY

China's CEOs remain optimistic and outward-looking in their perspective. However, the focus for global growth has now shifted to Southeast Asia, Europe, and Africa, which may be perceived as more open to Chinese investment and offer a distinct competitive advantage for Chinese business models.

Against a backdrop of rising labor costs and relentless competition, improving operational efficiency is seen as the primary imperative to sustaining growth. This comes at a time when Chinese enterprises are focused on becoming smarter, leaner, and more automated by leveraging next generation technology such as big data and artificial intelligence.

When it comes to attracting investor attention, despite the highly scrutinized unicorn IPOs in the U.S. in 2019, only 28% of Chinese CEOs believe profitability is a key priority. Instead, they are emphasizing revenue growth and product innovation.

The survey confirmed that 56.9% of Chinese entrepreneurs surveyed still remain confident, representing the highest level since the second half of 2014.¹

Fielded at the start of the third quarter of 2019, the survey reflects responses from 1,275 business leaders across China, including every province on the mainland of China and leveraging the extensive Tsinghua network. The highest concentrations of responses came from the provinces of Shandong (17.5%), Jiangsu (15.9%), Tianjin (13%), Sichuan (7.7%), Guangdong (7.3%) and Beijing (7.2%).

- 77% of the CEOs are male and 23% are female.
- 75% of the CEOs are between the ages of 31 and 50 years old.
- 94% have an undergraduate or post graduate degree.
- 97% of the companies have been operating for at least 2 years, 38% have been in business for 15 years or longer.

¹ Tsinghua's Index of Chinese Entrepreneurs Confidence in Development 2H 2019, pages 12-13.

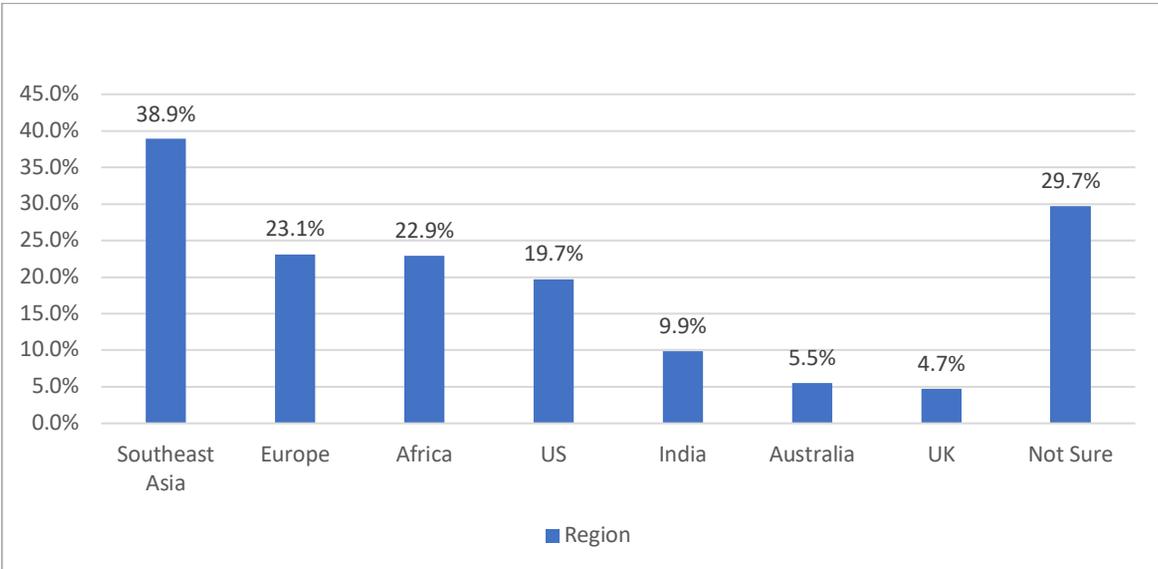
Key takeaways from the MarcumBP-Tsinghua survey indicate the following among respondents:

- Chinese CEOs remain very interested in global expansion, but **Southeast Asia is viewed as the most promising region for investment** (39% of CEOs), with the United States listed fourth (20%).
- When it comes to a public offering, **respondents see China's domestic markets as the most attractive listing venue (66%)**, compared to the U.S. market, which came in third (19%).
- 41% identify **revenue growth as the number one factor in IPO success**, whereas profitability was third (28%).
- 59% of **Chinese CEOs of private companies plan an IPO** as an important part of their strategic plan to achieve growth goals.
- Promoting **operational efficiency is viewed as the most important factor to achieve growth goals (61%)**, compared to new products and services (21%).
- **Bank loans** continue to be seen as the most important channel to finance growth, whereas private equity was third at 11% and public equity was last (6%).
- 71% of Chinese CEOs **said they are "very willing to consider mergers and acquisitions"** as part of their growth strategy, with acquiring advanced technology being the most important factor cited in M&A activity (31%).

"This inaugural China CEO survey provides a fascinating window into the most dynamic sector of China's economy and the decision makers who are driving China's economic growth and technology advancement," said Drew Bernstein, Co-Managing Partner of MarcumBP. "We are tremendously honored to be able to collaborate with Tsinghua University at this pivotal moment in time for the world's second largest economic engine."

FULL DATA ANALYSIS

Global Focus of Chinese Leaders Undiminished by Trade Tensions



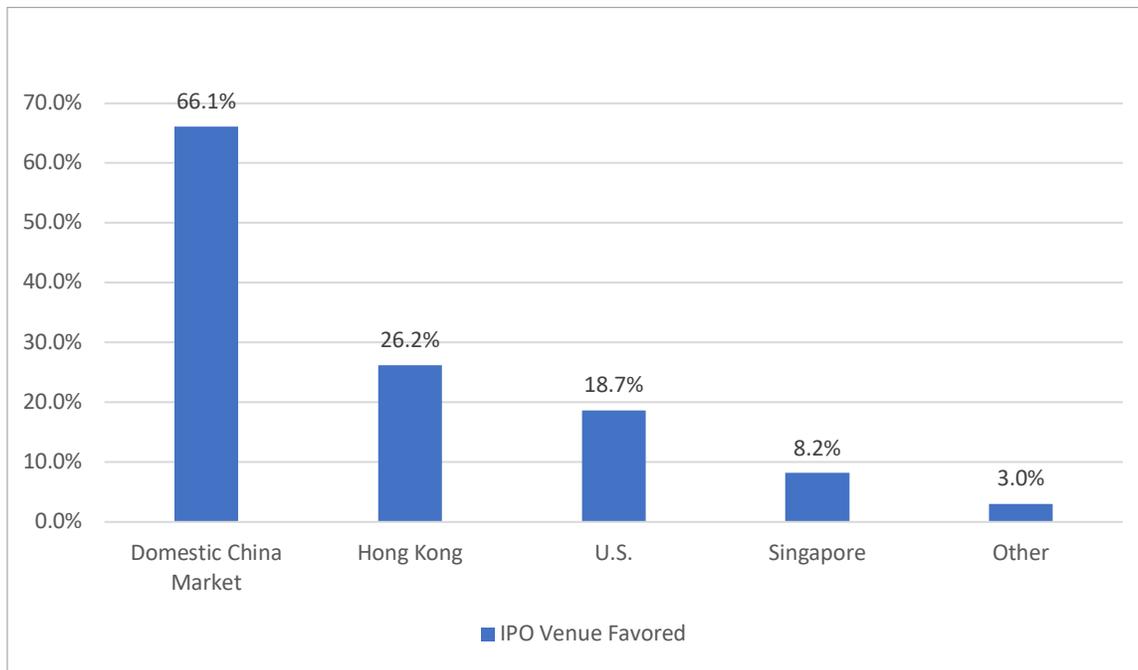
Chinese business leaders continued to demonstrate a high degree of interest in global expansion. The data reflects which areas of the world respondents believe are most vital to corporate future development.

MarcumBP Interpretation:

Overall, the survey paints the picture of an entrepreneurial culture that is resilient, adaptable and willing to take calculated risks to make an impact on the global stage. China’s business leaders are clearly a force reshaping the global economy.

FULL DATA ANALYSIS

China Markets Most Popular IPO Venue, Followed by Hong Kong and the United States



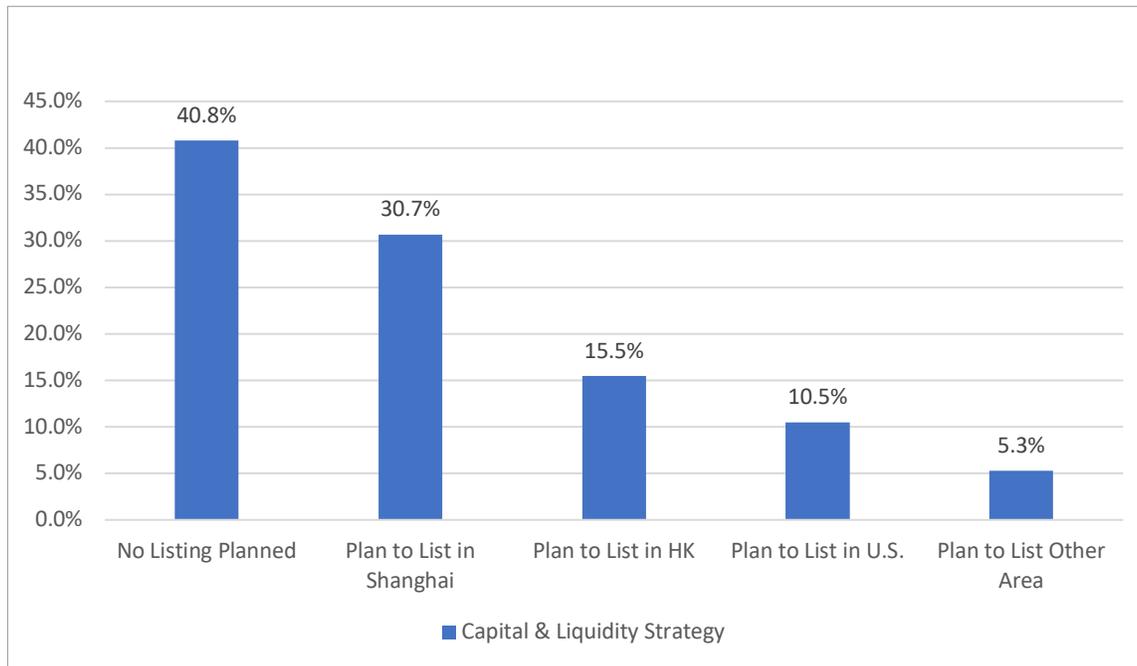
Fast growing companies in China now have a wider range of options for public listing than ever before. The data reflects respondents' views on which IPO market is best suited to fit their capital and long-term strategy needs. 66% of CEOs view the domestic stock markets as the best listing choice, while 26% favor Hong Kong, and 19% continue to look towards a U.S. listing as their preferred IPO venue.

MarcumBP Interpretation:

Today, Chinese enterprises have a range of viable choices of listing venues, following the successful debut of the new STAR Market in Shanghai for high technology, pre-profitable growth companies in the spring of 2019.

FULL DATA ANALYSIS

Majority of CEOs Plan for an IPO Eventually



Despite market uncertainty, the majority of Chinese CEOs surveyed see an IPO as the preferred path to raising equity capital and achieving liquidity for existing shareholders, with 59.2% of CEOs saying that a public offering is part of their strategic plan. The data reflects respondents' views on the specific status of IPO plans.

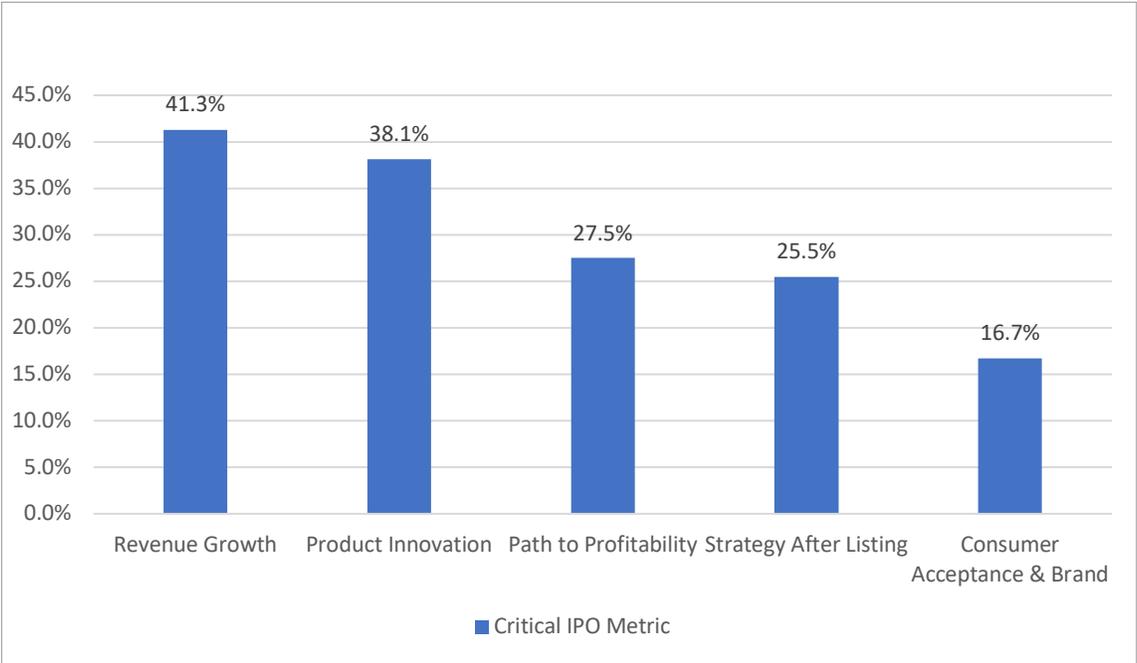
Nearly 60% of CEOs continue to see an IPO as the right long-term path to access needed growth capital and achieve liquidity for their key investors and employees over time.

MarcumBP Interpretation:

The IPO provides a significant amount of visibility and capital for a company. Chinese companies have a wide range of capital markets to choose from, and their market selection will depend upon their growth needs as well as the size and business objectives of the company.

FULL DATA ANALYSIS

Despite 2019 IPO Market Lessons, High Growth – Not Profitability - Viewed as Essential to Attracting Investor Interest



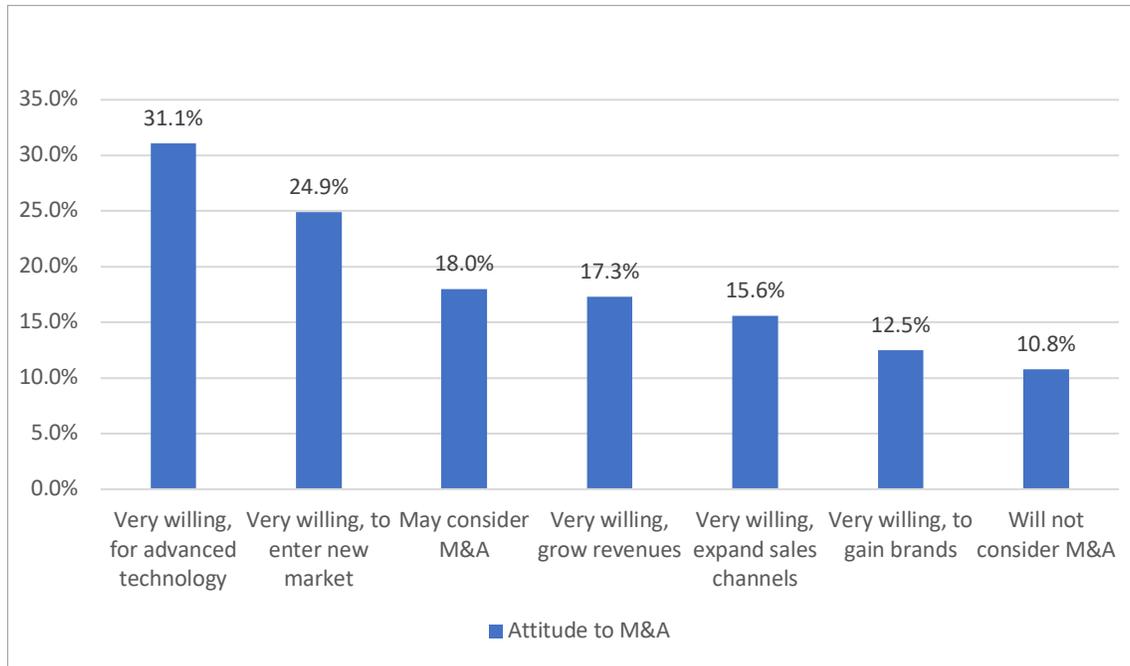
Post-IPO performance for Chinese companies has been mixed in 2019, as investors have grown less tolerant of private-equity-backed “unicorn” companies with high levels of cash burn and lacking a clear path to be sustainably profitable. Regarding the most important factor to attract investors for an IPO, CEOs identified growth as the top priority over profitability.

MarcumBP Interpretation:

In 2019, U.S. public markets have become less tolerant of cash-burning ‘unicorns’. Therefore, we expect the path to profitability to become increasingly important to investors. Companies also need to showcase a high level of transparency and strong corporate governance.

FULL DATA ANALYSIS

Chinese CEOs Have Robust Appetite for M&A



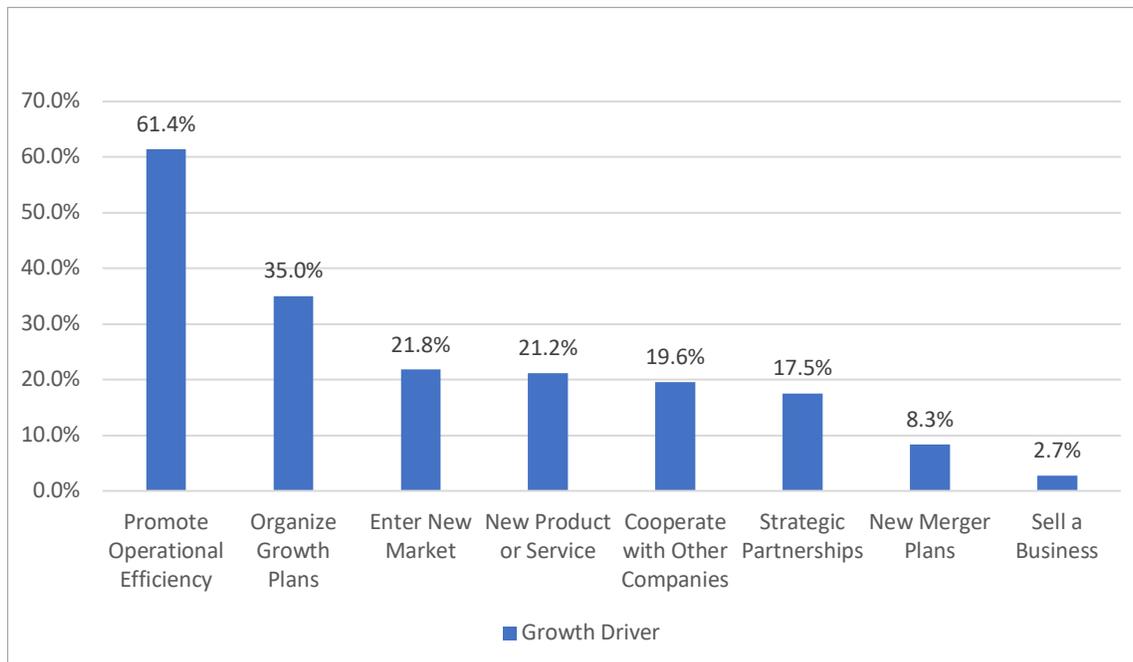
The survey revealed that rising trade tensions have not diminished the appetite of Chinese CEOs to make acquisitions if the deals advance the business development in a strategic way. Approximately 71% of CEOs surveyed are “very willing to consider mergers and acquisitions” and 89.2% are willing to consider M&A as a path to growth. The data reflects respondents’ views on the most important goal of making an acquisition.

MarcumBP Interpretation:

The survey confirmed that Chinese CEOs have a very healthy appetite for M&A as industries continue to consolidate and companies seek to move up the value chain.

FULL DATA ANALYSIS

Operational Efficiency Seen as Key to Future Growth and Survival



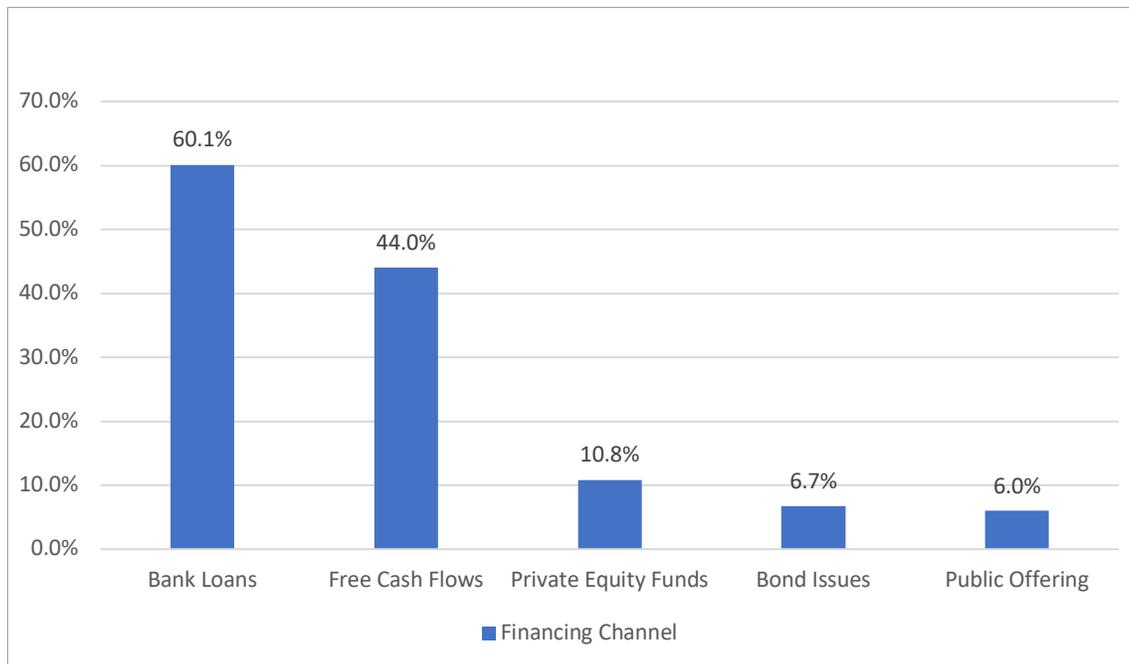
Given rising labor costs, changing demographics, and rising barriers to trade with the U.S., China continues to be an exceptionally intense competitive environment, with rapid and often unexpected changes to the policy framework. This data shows how respondents assessed which factor would be most critical to their future growth over the next 12 months.

MarcumBP Interpretation:

Internally, CEOs recognize that taking down their cost structure, automating production, and leveraging the potential of Big Data and AI to drive competitive advantage is now an imperative. This comes at a time when many sectors of the economy continue to consolidate and financing for money-losing businesses has become scarcer in the private sector.

FULL DATA ANALYSIS

Bank Loans and Internal Cash Generation Top Near-Term Sources of Growth Financing



Chinese companies continue to have a very strong appetite for growth capital, which has been made more challenging for smaller private enterprises due to reform and regulation of the shadow banking sector. The data reflects respondents' views on the most important source of financing to sustain near-term corporate growth.

Consistent with China's historical development, bank loans are viewed by CEOs as the most significant source of growth financing, followed by internally generated cash flows, private equity financing, and bond issuances. While public offerings came in last as a viable source of near-term financing, 59% of CEOs have a public listing as part of their strategic growth plan.

MarcumBP Interpretation:

Typically, a bank loan is the most economical way to borrow money. For competitive companies looking for growth, more aggressive capital raising such as an IPO is needed.

CONCLUSION

Overall, the survey's revelation of Chinese CEOs' optimism and intent to take advantage of capital formation opportunities presents heartening news for deal makers. It may also suggest greater resiliency than may be perceived regarding China's transforming growth model, which is moving away from a debt-intensive, state-sector-led approach. The goal is for China to overcome factors like rising wages and an aging population so as to avoid the "middle-income trap" of household income stagnation.

Given that private enterprises have been the primary source of new job formation and innovation in the service and technology sectors, this holds out promise that China will surmount the formidable challenges to sustain its exceptional track record of achieving broad-based national prosperity.



ABOUT MARCUMBP

Marcum, Bernstein, & Pinchuk LLP (MarcumBP) is an independent accounting and advisory services firm with a strong focus on cross-border services for public and private companies. The firm is one of the leading providers of audit and assurance services to Chinese companies listed on the U.S. stock markets and operates offices in major cities in China, including Beijing, Shanghai, Guanzhou, Hangzhou, Tianjin, and Shenzhen.

MarcumBP provides financial due diligence and forensic accounting services to investors and companies seeking to invest in China. The firm is known for its deep expertise in Chinese business practices, regulations, and accounting issues.

MarcumBP also provides a comprehensive set of accounting and advisory services to Chinese companies and individuals seeking to expand overseas. The firm helps clients achieve successful outcomes in M&A transactions, EB-5 investments, asset and real estate purchases, and international tax strategy and compliance.

Marcum BP was formed in January 2011 as a joint venture between [Marcum LLP](#) and Bernstein & Pinchuk LLP. The firm is registered with the [Public Company Accounting Oversight Board \(PCAOB\)](#) and has significant experience coordinating with the [Securities and Exchange Commission \(SEC\)](#) and major U.S. stock markets including NASDAQ and the New York Stock Exchange.

ABOUT TSINGHUA UNIVERSITY

The Institute of Minsheng Economics Research, Tsinghua University is a university research institute. Upholding the spirit of “emphasis on the people and the livelihood,” the university focuses on the economy and the nation. The institute is committed to promoting public rationality with its professional intelligence and is considered a think-tank which seeks to apply economic approaches to try to identify and address some of society’s most pressing problems in the field of the livelihood economy, while exerting influence on both relevant policy and theory. It concentrates on the topics of “employment and income distribution,” “population and education,” “development of people’s livelihood industry and the growth of small enterprises” and related studies.