



Shein's Planned 2025 London IPO

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What is the Context?

What is Shein?

Shein (pronounced as she-in) is a global e-commerce platform that is specialised in fast fashion. In their own words, "Shein is a global fashion and lifestyle online retailer committed to making the beauty of fashion accessible to all".

SHEIN

(Image Credit: Shein Website)

i) Shein's Growth

2012 (launched with 4 co-founders) ▶ 2014 (established on-demand supply chain centre) ▶ 2015 (launched SHEIN app) ▶ 2021 (launched SHEIN X designer incubator programme) ▶ 2022 (recognised as the most searched fashion brand in the world / serves over 150 countries) ▶ 2023 (launched global marketplace selling third party sellers' products alongside SHEIN products / SHEIN and SPARC Group join in a strategic partnership).

ii) Business Model

By contrast to competitors, Shein operates by an on-demand business model which offers more choice, more affordable prices, and less waste. Through a digitalised supply chain, the company (1) tests new products by launching them in small initial

batches of 100-200 items, (2) evaluates the customer feedback in real time, and (3) restocks the products that are in demand therefore ensuring that the company sells what the customer wants and minimises overproduction.

What is Happening?



(Image Credit: The British Chamber of Commerce in Japan, 'Japan and the Growth of the London Stock Exchange', April 6 2018)

Shein's Failed NYSE IPO

Initially, Shein had planned its IPO for the NYSE - New York Stock Exchange - in the US. However, the SEC - Securities and Exchange Commission - claimed that its application would not be accepted unless the company had submitted public filings. The company faced regulatory scrutiny with regards to its supply chain, in particular the source of cotton used in some products, its labour policies and its ties with a China.

Shein's Planned London IPO

Instead, in June 2024, Shein shifted its focus to the LSE - London Stock Exchange. *The Times* has reported that this purported IPO could be one of the largest deals on the LSE in the past decade. Should it be successful, it would be a “*much needed boost to the London market*”. The lead underwriters for Shein's IPO are expected to be Goldman Sachs, JPMorgan Chase, and Morgan Stanley. Ahead of the IPO, Shein faces Environmental, Social, and Governance (ESG) concerns, and concerns as to their involvement in forced labour. In light of this, Jonathan Reynolds - the UK business secretary - reassured investors that the UK will enforce “*the highest standards*”, and the government has delegated the necessary regulatory approval to the Financial Conduct Authority (FCA).

What is an Initial Public Offering (IPO)?

An IPO refers to the process by which a private company sells shares of its stock to the public on a stock exchange. Generally, it is a means by which a company can raise capital (i.e. money) which can be used to re-invest into the business, such as to finance an expansion.

i) LSE - The Markets

For the LSE, a company can choose to either list on the Main Market or AIM - the Alternative Investment Market. The Main Market is for developed company's. As a bigger market, which includes both the Standard Segment and the Premium Segment (which represents the highest standard of listing in London) there is more opportunity to raise capital from various investors. On the other hand, the AIM is for smaller companies that are not quite at the level to list in the Main Market. Naturally, there are differences in the admissions criteria for each of the two respective markets. For example, the Main Market requires a minimum market capitalisation, minimum 25% shares in public hands, and a three year trading record, whereas the AIM does not have these requirements.

ii) The Pros vs. The Cons

One of the benefits of an IPO is that there is a wider pool of investors from which to raise capital as the company will have access to investment from the entire public that invests. This makes it easier to raise the necessary funds for projects, expansions or acquisitions etc. In addition, the company will benefit from increased exposure. This attracts public awareness for the company's products, which can increase market share and facilitate future finance as the company can raise additional capital after an IPO through a secondary public offering.



(Image Credit: Google Images)



(Image Credit: Google Images)

One of the drawbacks of an IPO is the costs of the process. For example, the company will need to account for the cost of an underwriter - usually an investment bank - who will find investors that are prepared to buy the company's shares, help organise the shares and determine the price for which these shares should be sold. Additional costs include the generation of financial reporting documents, audit fees, accountants, and regulatory costs etc. Further, once listed, a company must ensure that they comply with the relevant disclosure requirements to keep the public informed of their activities, and financial performance.

What is the Impact on Commercial Law Firms?



(Image Credit: Google Images)

As explained, one of the primary purposes of an IPO is to raise capital from a wider pool of investors. For fashion brands, like Shein, a public listing on the stock market will increase the value of the business beyond sales revenue, increase exposure and awareness for the brand, and raise the money to re-invest in the business. Therefore, it is unsurprising that established fashion brands, like Shein, are drawn to the prospect of an IPO. In turn, this boosts work for commercial law firms, such as the Capital Markets teams who are heavily involved in the IPO process, in particular equity capital markets (check out the Commercial Word of the Article for the definition).

i) Before IPO

Foremost, the company will select its underwriters for the IPO. These underwriters market the IPO to potential investors. At this stage, the commercial lawyers will advise the client as to the listing requirements for the relevant market. In the case of the LSE, the company will need to decide whether they seek to list on the Main Market or AIM. Then, the commercial lawyers will need to carry out due diligence on the company, and assess its structure, financials, operations, and governance framework (i.e. board structures, shareholder agreements) etc. to identify potential risks and determine whether the relevant requirements are satisfied.

ii) Submission to Regulators

At this stage, commercial lawyers work closely with the company's management to prepare a prospectus that outlines important information about the company, its business, and financial risks etc. which is then submitted to the relevant securities regulator. In the UK, this is the Financial Conduct Authority (FCA) and in the US, this is the Securities and Exchange Committee (SEC).

iii) Roadshow / Underwriters

Commercial lawyers will negotiate terms, and draft underwriting agreements with the underwriters, and ensure that the company's roadshow presentations comply with securities law to prevent any misleading public statements that conflict with the offer document submitted to the securities regulator. A roadshow refers to a series of presentations that are made in various locations to market and promote the IPO. In addition, lock-up agreements are also drafted by commercial lawyers to prevent insiders of the company from selling their shares for a specified period of time following the IPO.

iv) IPO Closing / Post Closing

Once a final price is set for the IPO, a final prospectus will be filed with the regulators, and the IPO will be complete. But, even after the IPO, commercial lawyers are integral as they continue to advise their clients on their ongoing obligations as a publicly traded entity.

Commercial Word of the Article

What is Equity Capital Markets?

The equity capital market is a market that connects companies with financial institutions to raise capital for the company. To achieve this, the financial institution helps the company in the process of issuing shares in the company to raise capital which can be used by the company to re-invest into the business. The arena of equity capital markets is where IPOs take place.

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