

An Analysis of IPO Motivation and Effects of New Chinese Tea Brands: Taking NAYUKI Tea as an Example

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Abstract. The Initial Public Offering (IPO) listing of emerging Chinese tea brands in Hong Kong has captured widespread attention in current social discourse. Amidst the swift evolution of the tea brand industry and the advent of innovative Chinese tea offerings, the competitive landscape is witnessing a surge, prompting numerous brands to opt for Hong Kong IPOs as a strategic move to "breakthrough the siege." Focusing on NAYUKI Tea as the subject of investigation, this paper delves into the rationale behind NAYUKI Tea's IPO within the context of the tea brand market. It meticulously examines the financial and non-financial transformations both preceding and succeeding its IPO. The analysis reveals an enhancement in NAYUKI Tea's financial operations post-IPO, although formidable challenges persist in the capital market. Building on these findings, the paper consolidates insights into NAYUKI Tea's IPO journey, offering a comprehensive overview of its experiences, coupled with anticipations and prospects for the future of the tea industry.

1 Introduction

Since 2018, the Hong Kong Stock Exchange announced new rules to make Hong Kong Initial Public Offering (IPO) a boom, and many company founders have chosen to IPO in Hong Kong. At the same time, IPO in Hong Kong can also connect the mainland market with foreign markets, and promote enterprises to expand international business so as to better develop [1]. At the same time, the company under the IPO registration system has better performance in financial performance, corporate governance, information disclosure and other aspects than that under the approval system. Meanwhile, the higher reputation of the investment bank in the aspects of financial performance and investment before the listing of the company, the higher the IPO efficiency [2]. In terms of registration system regulation, after the regulatory reform survey found under the registration system regulators penalties for listed companies, especially in the disclosure of violations [3]. It illustrates the through strengthening supervision IPO violations number decline, improve the efficiency of the registration system of market regulation [4]. To a certain extent, standardize the market order, so as to promote the enterprise under the high regulation strictly regulate their own development, but also for unlisted companies IPO to build a good environment [2].

With the rapid development of the new Chinese tea beverage, Emphasizing the integration of Chinese tea with fresh fruit and milk, Loved by young people today, China's new Chinese style tea industry consumption is in a period of rapid development, Various new Chinese tea brands emerge in endlessly, Make the "inner roll"

situation of tea brands increasingly intensified, Various brands not only innovate in their products, also jointly cooperate with the cross-border well-known brand like Anime and movie accessories to attract more people to buy their milk tea so that improve the market competitiveness of the products, Strengthening the market competition in the tea brand industry, select an IPO to "break through", by using the IPO listing in Hong Kong to better help companies raise funds to improve their development goals and plans, to enhance the competitiveness of the brand itself, stand out in the new Chinese tea market with serious homogenization competition [1, 3].

This paper mainly focuses on the case analysis of NAYUKI Tea. As the "first" new tea, and the first IPO of a new Chinese tea brand, the paper analyzes the early stage and later stage of IPO, and further clarifies the IPO strategy of NAYUKI Tea [5]. These strategies can also provide reference for other new Chinese tea brands. The main purpose is to explore the significance of capital entering the new Chinese tea market for tea brands, as well as suggestions for other new Chinese tea brands to go to Hong Kong IPO and future development expectations [3, 6].

2 Analysis of the brand development status of NAYUKI Tea before IPO

2.1 NAYUKI Tea

NAYUKI Tea was founded in 2015 by Peng Xin and Zhao Lin couple. "NAYUKI" is Peng Xin's online name,

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so it is named NAYUKI Tea. Before the IPO, Peng Xin and Zhao Lin held 67.04% of the shares through Lin Xin Holdings. From the shareholding structure chart, NAYUKI Tea is a "husband and wife" enterprise. Among them, Tiantu Capital holds 13.04%, SGC Capital with ShenZhen SASAC 3.32%, Honghui Capital 0.85%, PAG 6.22%, and Yongle Gao 0.87% [4].

Founded in 2021 in the form of "tea + soft bread", with young people aged 20-35 as the main customer group, it insists on changing the tea base for 4 hours, and the soft bread does not stay overnight. As of May 11, 2023, the number of tea stores in China has reached 1158, all of which are directly operated stores and franchise is not accepted.

2.2 Financial analysis of NAYUKI Tea before IPO

Before the IPO of NAYUKI Tea, it raised funds for four times. The first time was in February 2017, when NAYUKI Tea opened its first round of financing, with Tiantu investing 70 million RMB. In March 2018, Tiantu Investment added NAYUKI Tea A + round of 22 million RMB. After this financing, the valuation of NAYUKI

Tea reached 6 billion RMB. In June 2020, it obtained nearly \$0.1billion round financing from Shenzhen Venture Capital. After the C round of \$0.1billion financing in January 2021, the valuation of NAYUKI Tea was close to \$2billion (about 13billionRMB) [6].

According to the study of its IPO financial status and the number of tea stores, NAYUKI Tea launched the "National Urban Development Plan" in December 2017, and expanded its stores to South China, Central China, East China, North China, Southwest China, Southwest China, Northwest China and other regions, with more than 200 direct stores. As of September 30, 2020, the number of direct tea stores nationwide has expanded from 200 in 2017 to 422, covering 61 cities in mainland China, as well as the Hong Kong Special Administrative Region and Japan [4]. As of 2017, 2018, 2019 and the first three quarters of 2020, the number of tea stores in NAYUKI is shown in Figure 1, which in 2019 and the first three quarters of 2020 increased by 172 and 95 stores respectively compared with the previous reporting period. It can be seen that the number of teas in the store is increasing, and the market size is also gradually expanding.

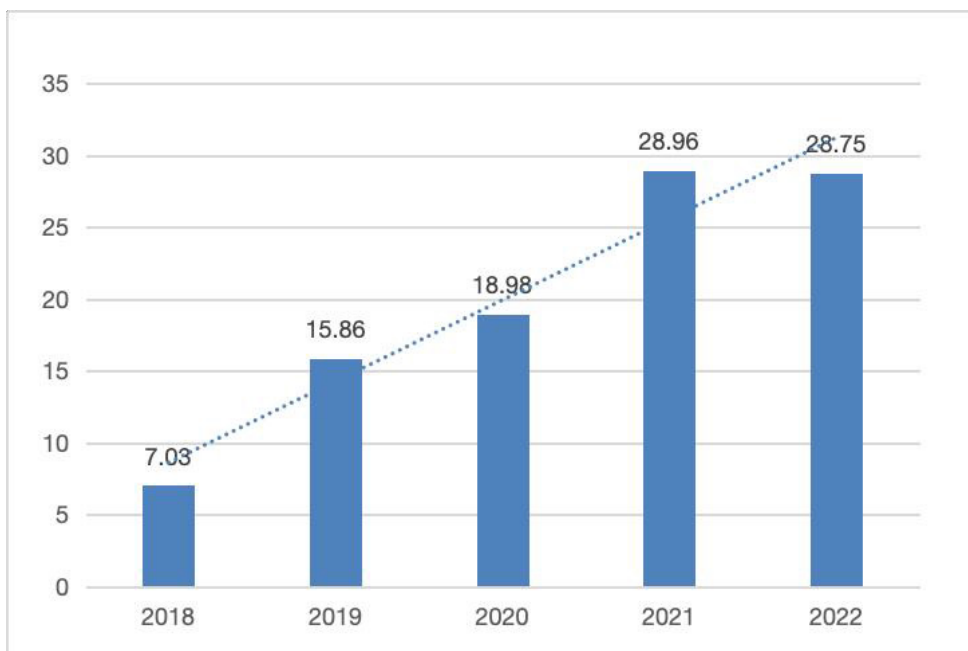


Fig. 1. The number of directly operated stores of NAYUKI Tea in the first three quarters of 2017-2021 (Photo/Picture: Original).

3 Analysis of IPO factors

The main goal of NAYUKI Tea IPO is to raise funds for listing, help enterprises develop better and enhance the market competitiveness of the brand. With the gradual development of tea brands, different new Chinese tea brands and different new Chinese tea products emerge in an endless stream, and the market competitiveness of tea brands is becoming increasingly strong, which makes the development of tea brands extremely unstable. NAYUKI Tea because of its choice stores model, in the market with other tea brand to expand stores, lead to the high

investment cost in operating stores, pure straight business mode of operation and joining profit, retail mode store expansion to bring more revenue, but the human cost, raw materials and a series of costs also increase, and join mode can improve profitability with the expansion of stores, human costs will not increase, this lead to NAYUKI Tea debt increased, unable to complete the scheduled shop plan, cash flow is difficult to solve the problem of debt [7]. Before IPO, the tea asset-liability ratio of NAYUKI Tea is compared with the normal asset-liability ratio of enterprises of 30% - 50%, and the tea asset-liability ratio of NAYUKI Tea is high from 2018 to 2020 (see Figure 2).

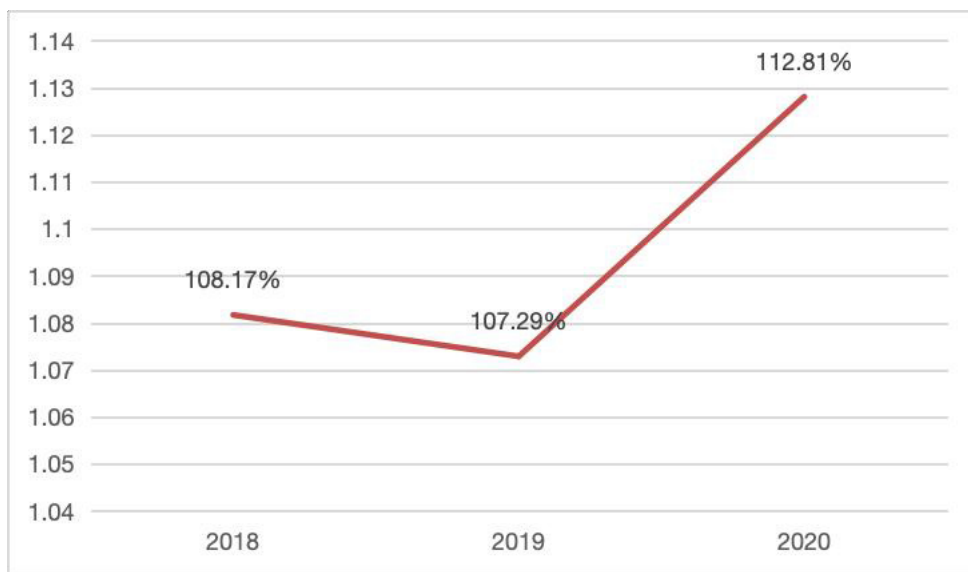


Fig. 2. The tea asset-liability ratio of NAYUKI Tea from 2018 to 2020 (Photo/Picture: Original).

From 2018 to 2020, NAYUKI Tea achieved revenue of 0.91 billion RMB, 2.292 billion RMB and 2.871 billion RMB, respectively, with net losses of 66 million RMB,

39 million RMB and 202 million RMB, respectively (see Figure 3). This makes NAYUKI Tea to choose the IPO listing to ease its financial debt problems.

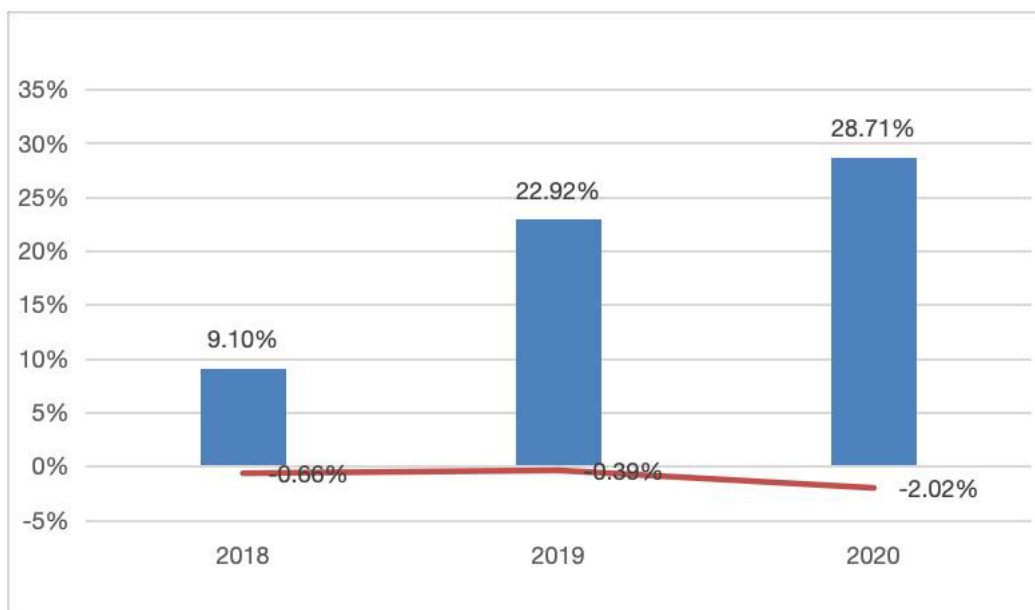


Fig. 3. Revenue and loss of NAYUKI Tea in 2018-2022 (Photo/Picture: Original).

4 Post-IPO performance analysis

4.1 Financial performance analysis

On February 11, 2021, NAYUKI Tea formally submitted the listing A1 form to the Hong Kong Stock Exchange and started the listing process, with JPMorgan Chase, China Merchants International and Huatai International as the sponsors. On June 30, 2021, NAYUKI Tea, known as "the first" global tea drink, NAYUKI Tea Holding Co., Ltd. was officially listed on the Hong Kong Stock Exchange. Public offering of 25,726,900 shares, each 500 shares, the total number of public offerings: 51,454

lots, group A group B 25,727 lots. Total IPO net proceeds H K \$4.842.4 billion [6].

After the successful IPO of NAYUKI Tea, it did not achieve the expected results. NAYUKI Tea had high hopes before the listing, but the stock price performance after the listing has not been satisfactory. Breaking at the opening, the share price fell in 2022, after which its share price has fluctuated around HK \$4-6, well below HK \$19.8/share issue price [2, 8]. It shows that the market lacks interest in the new Chinese tea brands, which leads to a serious decline in the stock price and also reflects the challenges in the future development prospects of NAYUKI Tea.

But, from Figure 4, it is possible to intuitively understand the change of the asset-liability ratio before

and after the IPO, and the asset-liability ratio of NAYUKI Tea has recovered to the normal level of the enterprise through the IPO. Through the IPO listing, NAYUKI Tea raised a large amount of funds for store

expansion and creating new marketing models to enhance product competitiveness, which greatly reduced the asset-liability ratio of NAYUKI Tea after the IPO in 2021.

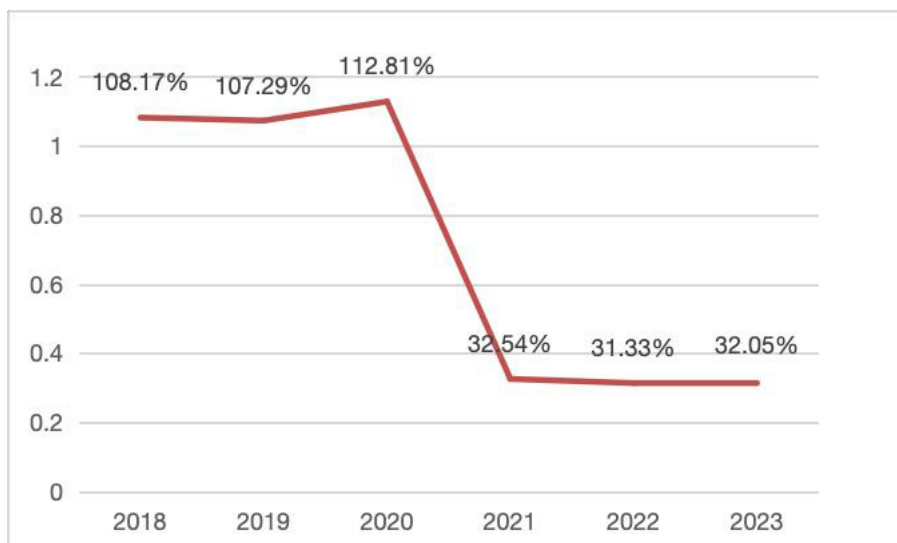


Fig. 4. Asset-liability ratio of NAYUKI Tea from 2020-2023 (Photo/Picture: Original).

It can be seen from Figure 5 that the ROE of NAYUKI Tea at a high level in 2020. Affected by the COVID-19 in 2021, the overall asset liability ratio of enterprise production and consumption at a low level in 2021. However, after the announcement of financing in 2021,

and with the improvement of the COVID-19 situation, NAYUKI Tea has developed a new business strategy to create new marketing methods by taking advantage of the upsurge of online goods, so that ROE gradually return to the normal level between 2022 and 2023.

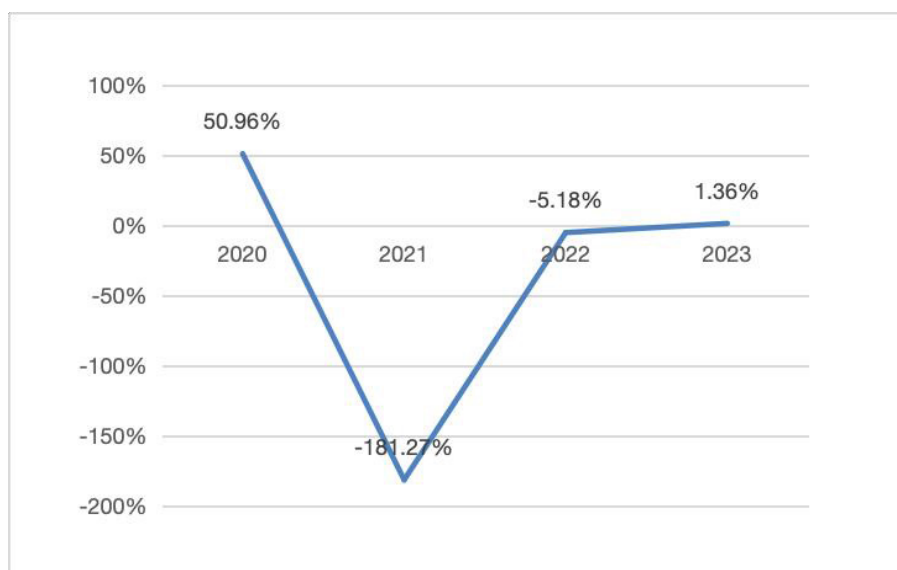


Fig. 5. ROE of NAYUKI Tea from 2020 to 2023 (Photo/Picture: Original).

4.2 Non-financial performance analysis

After the analysis of its post-IPO financial performance, the non-financial analysis was conducted. According to the comparison, there were 155 tea stores in 2018, 327 stores in 2019, 327 stores in 2020, 491 stores, and the number of stores in 2021 and 871 stores in 2022. Figure

6 shows the in 2021 NAYUKI Tea affected by the outbreak, NAYUKI Tea after the listed store expansion number is still on the rise, shows the successful NAYUKI Tea IPO after its financing ability to strengthen, brand awareness, attract more customers, demand, at the same time using capital marketing ideas change, change before shop idea, to reduce costs to open pro store (namely cut store area, etc.) [9].

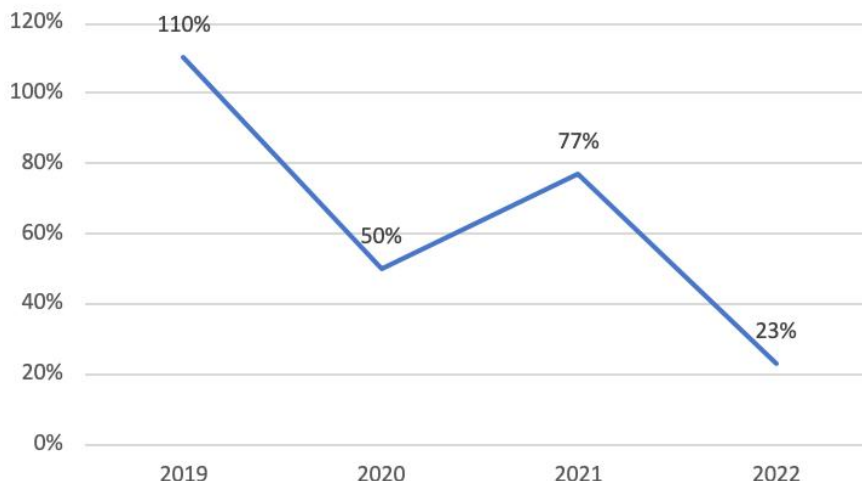


Fig. 6. Store expansion rate of NAYUKI Tea from 2019 to 2022 (Photo/Picture: Original).

Since the tea IPO, NAYUKI Tea reputation and brand influence expanded. For the new Chinese style tea brand, reflecting Chinese characteristics has become another important means to enhance the brand. In 2022, NAYUKI Tea will change its Chinese signature and LOGO from Japanese "NAYUKI" to pinyin "NAYUKI", change the Japanese elements in the original brand to the "China-fashion label" in line with their own image, NAYUKI Tea follows stricter financial reporting and corporate governance requirements after its IPO, brand awareness in the market, to develop more diversified strategic goals through IPO financing, make NAYUKI Tea won the 2023 China Catering Golden Gourmet Award top 10 most popular tea brands, top row with 82.51 points.

5 Discussion

5.1 Future IPO analysis of other new Chinese tea brands

The tea industry is becoming more and more serious, with the first shot of the tea IPO listing, xi tea, tea hundred, Shanghai aunt, ancient Ming, new brew, Charming Tea and other popular tea brands are also competing to submit applications, ready to market [2]. However, with the slowing down of the growth rate of the scale of tea, the competition pressure of tea has increased. However, only a small number of tea brands such as ChaPanda Tea and Good Me Tea have completed the financing of IPO listing. In order to improve the competitiveness of their products, tea brands have chosen to market [3]. For tea brands, listing can attract more capital, attract more talents, so that enterprises can better develop, improve the competitiveness of enterprises, so as to cope with the increasing competitive pressure of the tea market, but the IPO of tea brands still has a long way to go.

5.2 The future development expectations of the tea industry

As for its future plan, NAYUKI Tea said it plans to open 300 new stores in 2021,2022 and 2022 and 350 stores in 2023. Among them, about 70% of the new stores are NAYUKI Tea PRO store [8]. From this calculation, in three years, NAYUKI Tea stores will reach 1500. In the first half of this year, the revenue of NAYUKI Tea shop was 2.354 billion yuan, up 25.35% year on year.

With the increasingly severe "inner volume" in the tea industry, it is a "big reshuffle" of survival of the fittest to enhance the product competitiveness of tea enterprises, and keeping upright and honest innovation has become a key point in the tea industry [2].

5.3 Suggestions for the development of the tea industry

In terms of tea industry and tea brands, tea brands need to formulate their own enterprise development mode according to their own development mode. NAYUKI Tea belongs to the direct-sale store model, which makes the capital consumed in store expansion far exceed the capital expenditure under the store expansion mode of other brands joining [7]. Second, NAYUKI Tea brand positioning for high-end tea brand, its product raw material cost is relatively high, it also makes its product pricing relative to other tea brand price is higher, so for NAYUKI Tea money plays a vital role for enterprise development, using listed to raise funds can make its brand better development.

Capital intervention in new Chinese style tea brand market will play a role in promoting the development of tea industry, but in the long run, tea brand development or should pay attention to their own enterprise development, carefully choose development path, pay attention to the product itself, reasonable pricing, standardize production, use more healthy raw materials, supply chain resources integration ability. All kinds of tea enterprises can formulate appropriate development strategies according to the development situation of their own enterprises, rather than just choose the road of listing. In the future, tea brands may move towards a more diversified, healthy, green, and enhanced user experience model [10].

6 Conclusion

From the new tea beverage brand to the Hong Kong IPO and then to the NAYUKI Tea, on the one hand, for new Chinese tea beverage enterprises, from the perspective of financial performance analysis, it is found that using IPO listing can help new Chinese tea beverage brands successfully raise funds, which has a certain promoting effect on breaking through the competition in the tea beverage industry. At the same time, it can also enable enterprises to achieve development goals, innovate development, and help brands find new development models and paths. It can also better enhance the brand effect of the enterprise itself and help the enterprise develop more standardized. However, for the IPO of the tea industry in Hong Kong, the challenge in the capital market is also huge. The homogenization of the tea industry is serious, leading to the lack of motivation for investors and consumers to invest in the new Chinese tea. Tea enterprises also need to choose whether to IPO in Hong Kong according to their own enterprise model. Listing in Hong Kong is not plain sailing, and it also means that enterprises need to face huge listing challenges. With the enhancement of market supervision efficiency of IPO in Hong Kong, the pressure of new Chinese tea industry to IPO in Hong Kong is also greater.

Second, for the tea industry and tea brands, tea brands need to clarify their own development path and formulate their own development model. NAYUKI Tea belongs to the direct store model, which means that the funds required for store expansion and other aspects are much higher than those for other brand franchise store expansion methods [7]. Furthermore, NAYUKI Tea brand is positioned as a high-end tea beverage brand, and its product raw material costs are relatively high, which makes its product pricing relatively high compared to other tea beverage brands. Therefore, for NAYUKI Tea, funds play a crucial role in the development of the enterprise, and using listing to raise funds can help its brand develop better. It shows that different ways of store expansion have both advantages and disadvantages for new Chinese tea brands. On the one hand, enterprises are required to pay attention to market share and revenue rate, and on the other hand, enterprises are required to pay attention to food safety and business environment.

The IPO development of new Chinese tea brands in Hong Kong is facing great challenges, and it is particularly critical to choose a development path suitable for themselves. Chinese modern tea beverage enterprises need to develop in a more standardized manner, pay more attention to the development of the brand itself. Moreover, innovative products, balance market share, revenue, product safety and health issues. Especially pay attention to improving the quality of products, in order to enhance market competitiveness, and striving to build a new type of Chinese tea industry enterprise that is deeper, healthier, more environmentally friendly, and more innovative.

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