



**meitu** 美图

HKICPA Event



Pre-IPO

US vs HK

- Regulatory framework
  - Valuation
  - IFRS vs US GAAP
- Other characteristics

IPO Execution

Loss making/  
Negative Cashflow

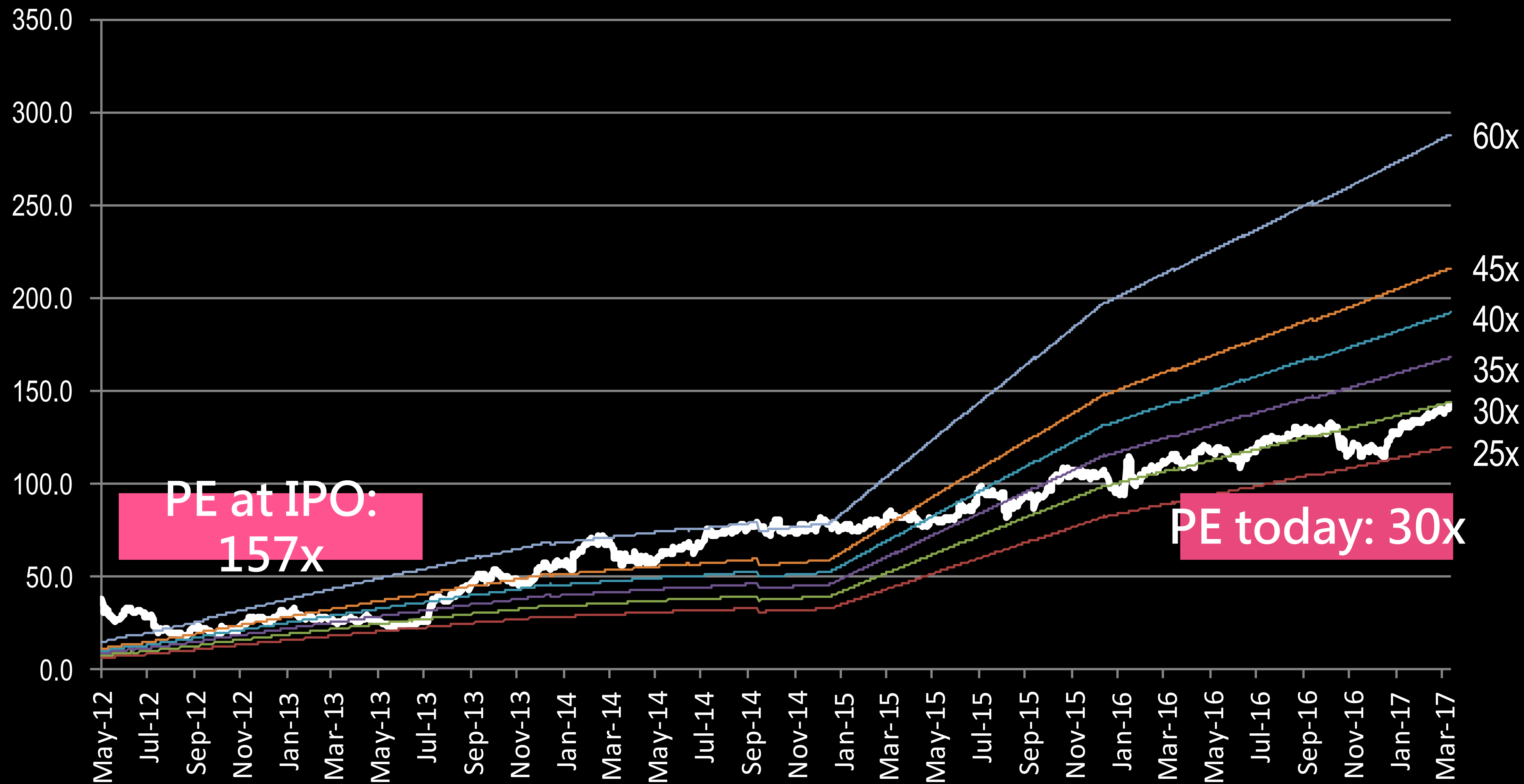
Draft Foreign  
Investment Law & VIE

Roadshow /  
Investor Relations

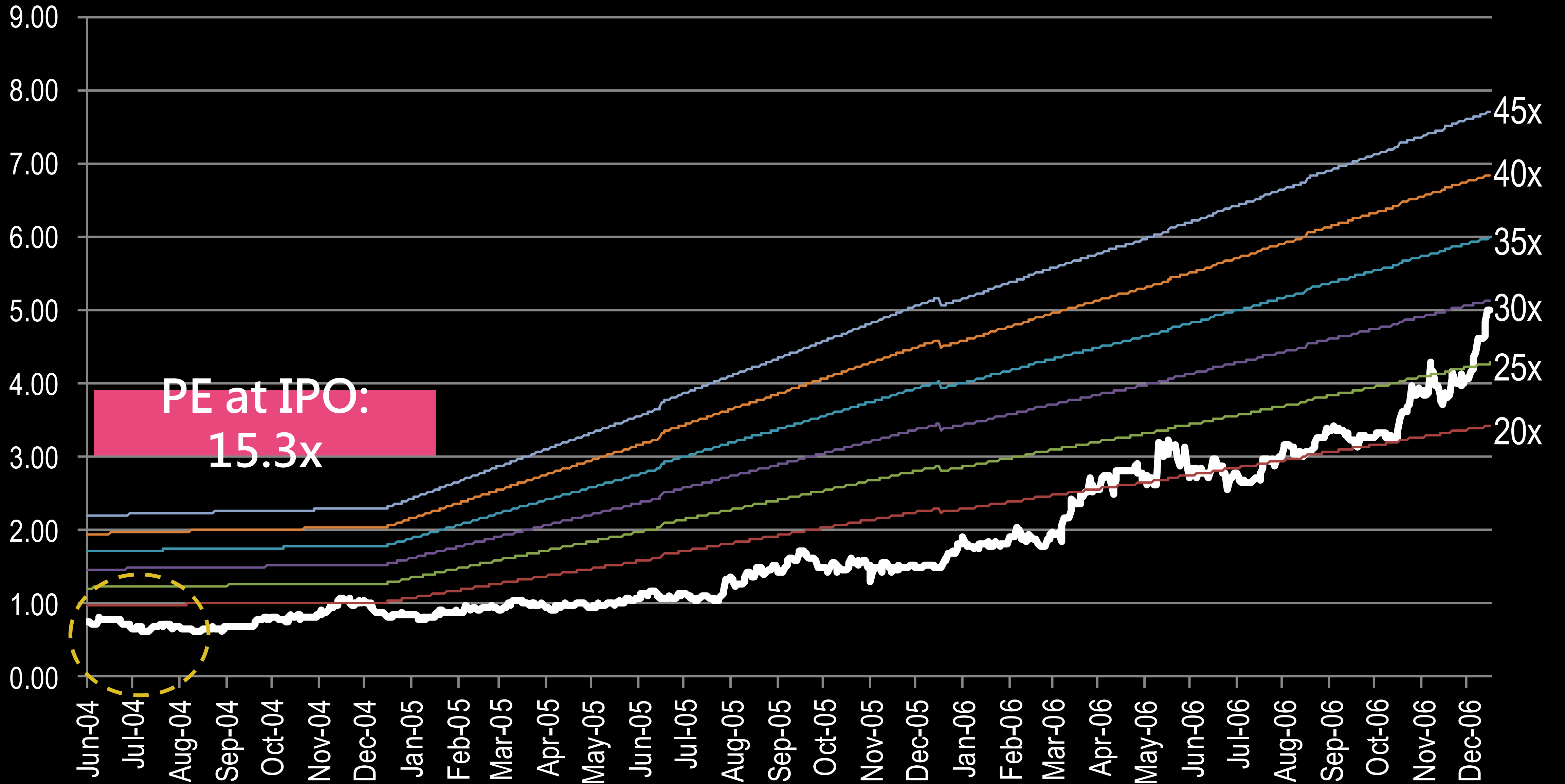
HK vs CN vs US Investors

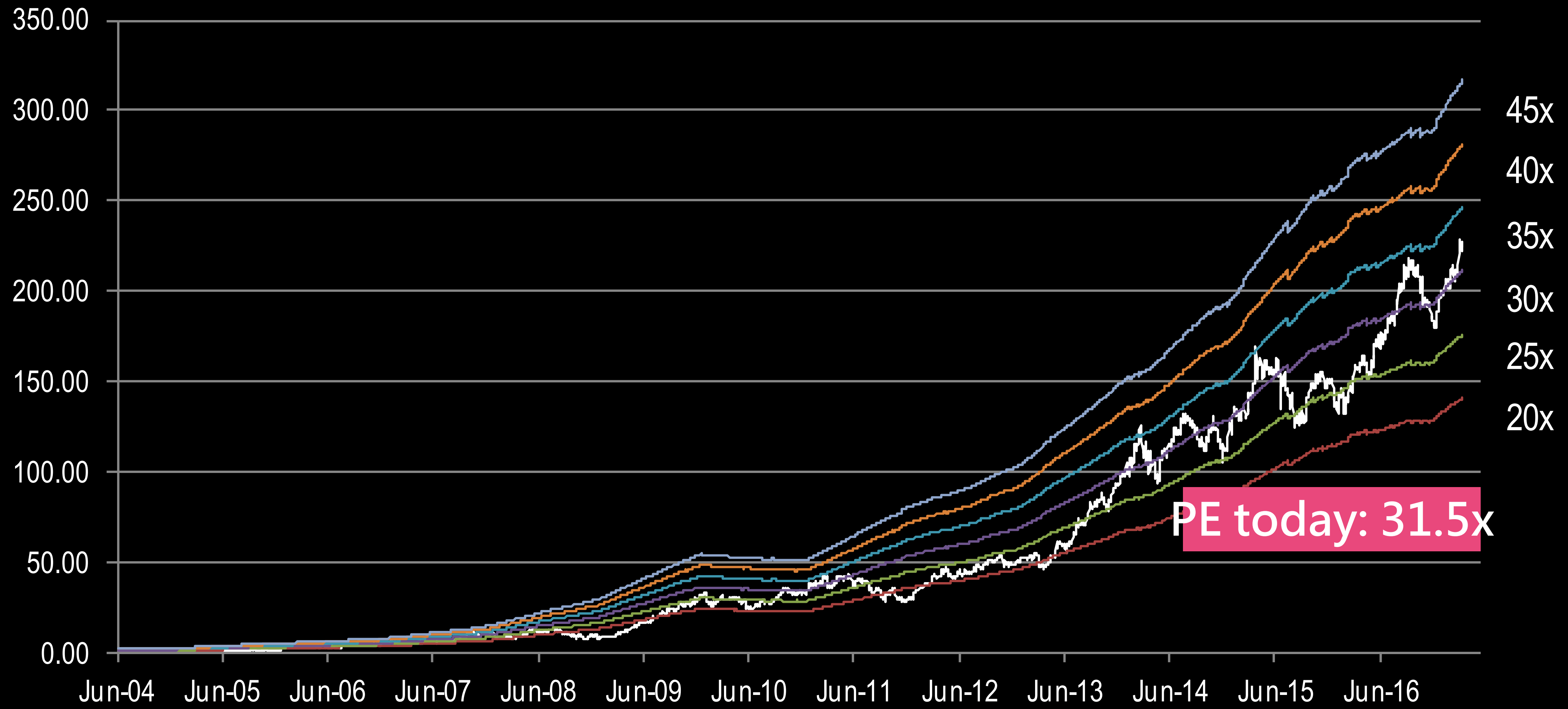














# 美图招股披露 三年半蝕63億

內地知名修圖App「美圖秀秀」，其母公司美圖公司昨日已上傳初步招股文件，披露從2013年起持續虧損，三年半累蝕63億元人民幣，預計短期不會派息。按規例，若公司市值40億元或以上，只要最近1年收入達5億元以上，同樣符合本港主板上市要求。美圖2014年、2015年及2016年首6個月收入分別是4.88、7.41及5.85億元；市場預計美圖上市後市值將達390億元。

該文件亦披露，美圖收入極依賴智能手機銷售，今年首6個月佔95.1%，2014及15年亦近90%。在綫廣告收益僅錄得小幅增長甚至下滑，收入比重亦由2013年的40.2%，大幅降至去年的9.8%；今年首6個月有關收入為2590萬元人民幣，按年跌37%。月活躍用戶總數，則從2013年12月約8800萬人，增至今年6月約4.46億人。

## 將開拓海外業務

美圖指，未來重大戰略為將開拓海外業務，但目前海外市場所產生的收益佔其

總收益不足1%，亦會通過多種途徑多元化拓展收益來源，例如擴大在綫廣告、直播及手遊業務，以及發掘電商等其他變現機會。該公司又指，已斥資合約3.24億元，對中國及海外多家公司進行少數股權投資。

早前傳美圖最快下季來港上市，籌約39億元至78億元；保薦人為摩根士丹利、瑞信及招商證券。另外，內地兩大電力集團之一大唐集團旗下、重啟上市的大唐環境產業，及機械租賃公司善樂國際，亦於昨日上傳初步招股文件。

## 美图上半年巨亏近 22 亿 主要收入靠卖手机

“美图来凑。”很多青年男女都已离不开修图软件了。而运营修图软件佼佼者，正冲击着港股市场。

| 2016-08-23 | 21 世纪经济报道 | 11 | 金融 | By 杨清清  
报章

## 美图公司拟赴港上市 或因投资资金退出压力

本报记者 杨清清 北京报道经过两年的上市传言纷扰，这一次，八岁的美言坐实了。

近日，有媒体报道称美图公司上周五已向香港监管部门递交了上市申请，三季度在香港进行 IPO，募资 5 亿至 10 亿美元。该消息亦得到接近美图公司人士雷建平证实，据其向 21 世纪经济报道记者推测，本周之内便会有该公司的官方公告出现。美图公司则向 21 世纪经济报道记者表示“不对市场传





**CONSOLIDATED INCOME STATEMENTS**

	Section II Note	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue .....	5	85,877	488,049	741,813	180,600	585,477
Cost of sales.....	5, 8	(36,272)	(401,376)	(641,323)	(142,306)	(510,996)
<b>Gross profit</b> .....		49,605	86,673	100,490	38,294	74,481
Selling and marketing expenses .....	8	(16,201)	(120,955)	(649,092)	(267,067)	(196,760)
Administrative expenses.....	8	(14,134)	(38,281)	(94,742)	(32,867)	(70,424)
Research and development expenses...	8	(16,478)	(50,149)	(119,605)	(46,356)	(90,511)
Other income .....	6	115	3,430	11,085	3,327	4,498
Other losses, net .....	7	(77)	(164)	(858)	(158)	(418)
<b>Operating profit/(loss)</b> .....		2,830	(119,446)	(752,722)	(304,827)	(279,134)
Finance income .....	10	187	4,567	19,053	8,403	4,285
Finance costs .....	10	(4,891)	(1,296)	(155)	(94)	(2,216)
Finance income/(costs), net.....	10	(4,704)	3,271	18,898	8,309	2,069
Fair value loss of convertible redeemable preferred shares.....	27	(23,501)	(1,651,464)	(1,482,643)	(972,840)	(1,912,208)
Share of losses of investments accounted for using the equity method .....	11(a)	—	—	(319)	—	(351)
<b>Loss before income tax</b> .....		(25,375)	(1,767,639)	(2,216,786)	(1,269,358)	(2,189,624)
Income tax expense .....	12	(438)	(4,697)	(771)	(270)	(115)
<b>Loss for the year/period</b> .....		<u>(25,813)</u>	<u>(1,772,336)</u>	<u>(2,217,557)</u>	<u>(1,269,628)</u>	<u>(2,189,739)</u>
<b>Loss attributable to:</b>						
- Owners of the Company .....		(25,813)	(1,772,336)	(2,217,557)	(1,269,628)	(2,189,739)
- Non-controlling interests .....		—	—	—	—	—
		<u>(25,813)</u>	<u>(1,772,336)</u>	<u>(2,217,557)</u>	<u>(1,269,628)</u>	<u>(2,189,739)</u>

**Reason:**

- Convertible Redeemable Preferred Share (very common for tech co.) classified as liability under IFRS
- Company valuation goes up, fair value of the "liability" goes up
- Difference is fair value loss

**Analysis:**

- Non-operating, non-cash, disappear after IPO
- Doesn't make any economic sense! Meitu only raised a total of RMB3.1bn pre-IPO, how can we had a real operating loss of RMB 6.3bn???

HK is actually the ONLY exchange in the world that enables hassle-free investing for both **Mainland Chinese** and **international** investors

HK a much more **retail-driven** market

Liquidity is still **less** than that of US (at the moment)

You **cannot short-sell** on day 1 (most of the time)

Main Board

A Main Board new applicant must have a trading record of not less than three financial years and meet one of the following three financial criteria:

	1. Profit Test	2. Market Cap/ Revenue Test	3. Market Cap/ Revenue/ Cashflow Test
Profit Attributable to Shareholders	At least HK\$50 million in the last 3 financial years (with profits of at least HK\$20 million recorded in the most recent year, and aggregate profits of at least HK\$30 million recorded in the 2 years before that)	-	-
Market Cap	At least HK\$200 million at the time of listing	At least HK\$4 billion at the time of listing	At least HK\$2 billion at the time of listing
Revenue	-	At least HK\$500 million for the most recent audited financial year	At least HK\$500 million for the most recent audited financial year
Cashflow	-	-	Positive cashflow from operating activities of at least HK\$100 million in aggregate for the three preceding financial years



## 2. Market cap / Revenue Test



## 3. Market cap / Revenue/ Cashflow Test

Both VIEs, both loss-making:

pre-vetting and special approval are **NOT** required...



*Hypothetical Breakeven Analysis*

For the six months ended June 30, 2016, we had adjusted net loss of RMB257.6 million and net operating cash outflows of RMB277.2 million. During this period, we recorded a gross profit of RMB108.7 million for our smart hardware segment and a gross loss of RMB34.2 million for our Internet services and others segment.

In order for us to have recorded adjusted net profit and had positive cash flows from operating activities during the six months ended June 30, 2016, our average monthly revenue per MAU would have needed to increase from RMB0.219 (RMB0.208 for our smart hardware segment and RMB0.011 for our Internet services and others segment) to RMB0.367 (RMB0.208 for smart hardware segment and RMB0.159 for the Internet services and others segment), representing a total increase in revenue of approximately RMB384 million, and assuming that:

- (i) the additional revenues generated during the period were solely derived from the online advertising portion of our Internet services and others segment and no additional revenues were generated from our smart hardware segment or the IVAS and proposed e-commerce portions of our Internet services and others segment;
- (ii) our selling and marketing expenses increased by 40% to increase the engagement of users on our platform;
- (iii) our bandwidth and server custody fees increased by 40% to accommodate the increased user activity resulting from the assumed increased user engagement;
- (iv) there had been no change in the size of our user base, which consisted of approximately 446 million MAUs in June 2016, even though the aforementioned increases in selling and marketing expenses would be expected to have led to an increase in our MAUs and increases in bandwidth and server custody fees would also have been driven by increases in our MAUs;
- (v) trade receivables resulting from the additional revenues are calculated using the actual trade receivable turnover days as of June 30, 2016; and
- (vi) there had been no changes in other balance sheet items.

## Hypothetical Breakeven Analysis

- Focus on “how and when” are you going to become profitable
- Not a profit forecast
- Make reasonable assumptions
- Be thoughtful and detail about the use of proceeds

## Draft foreign Investment Law

- NOT enacted, consultation only
- If controlling shareholder is PRC, then whole group is PRC (VIE not needed)
- By same token, if controlling shareholder is foreign, whole group is foreign  
(even with VIE)

Problem is... there is no clear definition of “controlling” !!

Don't just follow precedent blindly... be brave and creative! *meitu* 美图

Company listed Jan 2016

*meitu* 美图 listed Dec 2016

A. Controlling Persons undertook after sale, the company will still be 'controlled' by the Controlling Persons

B. where following the disposal, the Ultimate Controlling Persons will hold not more than 50% voting rights in our company, the subsequent transferee must

(a) be a "PRC investor"

(b) undertake the same as the Ultimate Controlling Persons did; and

(c) act in concert with the remaining Ultimate Controlling Persons from then on.

...wait a minute, ACT IN CONCERT??? Then how can they sell on open market?!

No mentioning of 50%

No acting in concert requirement

Focus on the Draft Foreign investment Law (as enacted) rather than dealing with the current draft form

**MUCH MORE FLEXIBLE!** (and commercially reasonable)



HK Investors

How do you  
make money?

China Investors

How come you  
are unprofitable

US Investors

I know you can  
make money, tell  
me more about  
competition and  
user stickiness



# Land bank

# User base

Map of Macao's Cotai Strip



Has a book value

Has much more than  
book value



## BUT...need to avoid

- User base supported by user acquisition and/or subsidy  
*(once the marketing/subsidy stops, user base shrinks)*
- User base that are loyal to content but not the platform  
*(once the content goes out of favor, as it almost certainly will, user will go)*
- User base that are not large enough (rule of thumb, 100 million + monthly active)  
*(easy to get competed away by existing leaders)*





A STEVEN SPIELBERG FILM  
ARTIFICIAL INTELLIGENCE



¥ 1.6Bn

Total revenues of 2016 increased by **113%** yoy



**40%**

YoY revenue growth of the Internet services and others segment



**121%**

YoY revenue growth of the Smart hardware segment



**24%**

Adjusted net loss<sup>(1)</sup> of 2016 **reduced significantly by 24%** yoy to RMB 540 MM



**68Bn**

Photos processed by our apps in the year of 2016



**450MM**

Total MAU in 2016 grew **21%** yoy and reached a historical high of **~520 MM** in Jan 2017



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Thanks