

The Equity Investment Banks' Coping Strategies under the Background of IPO Tightening

Zihan Wang^{1,*}, Zuolin Wang²

¹ Beijing New Talent Academy, Beijing, China

² Bachuan Quantum Middle School, Chongqing, China

* Corresponding Author Email: wzh836@gmail.com

Abstract. In the current global economic environment, the volatility and uncertainty of the IPO market have increased due to both global economic downturn and the increasingly strict IPO market standards, posing a significant challenge to the traditional business model of equity investment banks. Although there have been some studies on the methods to deal with the tightening IPO market, which mainly focus on the terms of regulators, supervision standards and expansion of their services, there is still a lack of researches on the more effective and efficient coping strategies of equity investment banks. Combining the latest financial technology with the business of equity investment banks, this paper will focus on how can investment banks adopt Fintech strategies including blockchain and artificial intelligence in the context of IPO tightening, providing them with two practical ways which includes the application of blockchain and artificial intelligence to cope with market uncertainty and help them find ways to develop in difficult situations.

Keywords: IPO, Economy, Equity Investment Banks, Fintech, Blockchain.

1. Introduction

The global initial public offering (IPO) market has always been an important measure for companies to raise funds, expand business and increase market visibility. However, in recent years, the IPO market has experienced significant volatility, resulting in fewer companies choosing to go public. Since 2000, the number of IPOs in the U.S. market has shown a significant downward trend compared with the 1980s and 1990s [1]. Since 2023, the slowdown in IPOs in China has become more pronounced, putting huge pressure on the equity underwriting business of securities firms. In September, the equity underwriting business became even more sluggish, with IPO and refinancing volumes dropping by 70% and 60% year-on-year respectively. Wind data shows that based on the listing date, the total amount of funds raised by the A-share market in the first three quarters of this year was 983.2 billion yuan, a year-on-year decrease of 23%. The scale of IPO financing was 323.6 billion yuan, a year-on-year decrease of 33%. Moreover, it shows that in the first half of 2024, the equity underwriting and sponsorship income of 44 securities firms fell by 80% year-on-year. This phenomenon shows that equity investment banks which have traditionally relied on the IPO market as their main source of revenue are suffering from challenges. The decline in IPO activity not only impacted the income of equity investment banks but also forced them to rethink their business models, customer engagement strategies and overall market positioning.

Many factors might lead to a contraction in Initial Public Offering (IPO), of which the external ones can be mainly divided into four parts. Firstly, the adjustment of the macroeconomic environment and policies, such as the slow global economic growth, serious inflation, increasing geopolitical conflicts, international trade frictions and other issues have affected the stable operation of the economy. In this context, the regulatory layer strengthened the design and overall planning and implemented macro-policies to cope with the difficulties and challenges faced by the stable operation of the economy [2]. Secondly, the market supervision standards have been strengthened, the China Securities Regulatory Commission (CSRC) has increased the audit and supervision of IPOs, improved the quality requirements of listed companies, and strictly tightened the entry threshold, resulting in a phased tightening of the IPO rhythm. In particular, the audit standards of the Science and Technology Board



have been improved, for example, after the revision of the "science and Technology attribute" evaluation system of the Science and Technology Board in December 2022, some enterprises are having difficulty meeting the positioning requirements of the science and technology board, and higher requirements are put forward for the science and technology attribute and listing threshold of enterprises, resulting in a significant reduction in the number of accepted enterprises [3,4]. Finally, the regulatory authorities have raised the requirements for the quality of listed companies. The regulatory authorities hope to optimize the market structure by improving the quality of listed companies, which leads to some companies being refused to go public because they do not meet the new standards.

The internal reasons within companies can also be divided into three points. Firstly, the structure of the market economy has shifted, with large enterprises increasingly dominating the market, while smaller companies rely more and more on being acquired by larger firms rather than raising funds through IPOs. Secondly, the expansion of private equity and venture capital markets indicates that these markets offer an alternative to IPO, reducing companies' reliance on public markets. Lastly, the rising costs associated with going public (such as regulatory and compliance costs) have led smaller companies to prefer other financing methods over pursuing an IPO [5].

In addition, there have been six main strategies taken by investment banks to cope with the changes in IPO. First of all, many investment banks improve their internal control mechanisms, and financial management systems, regulate employee behavior, improve business capabilities, and create a good environment for IPO listing financing [3]. Clarify the goals and principles of internal control, ensure that all business processes comply with regulatory requirements and company policies, establish a risk assessment and monitoring mechanism, promptly discover and deal with potential risks, and conduct regular internal audits to ensure compliance and transparency of business operations. Secondly, being actively in Mergers and acquisitions (M&A) is also a widely used method. Mergers and acquisitions (M&A) are the different ways companies are combined. Entire companies or their major business assets are consolidated through financial transactions between two or more companies. In-depth study of market trends and industry dynamics, identify opportunities and risks of M&A and reorganization, strengthen communication and negotiation ability with potential M&A targets, and improve the success rate of M&A. Sinolink Securities investment bankers told reporters that they plan to increase the layout of mergers and acquisitions business. In this process, companies can achieve rapid expansion, increase market share, acquire new technologies or enter new markets through mergers and acquisitions. For example, expand the market, during which you can take the initiative to find and contact potential customers, such as enterprises, investors or financial advisers, show your professional ability and success cases, and strive for business opportunities. Conduct in-depth analysis of different industries to identify M&A and restructuring opportunities, such as high-growth industries, struggling industries or areas of consolidation opportunity. Thirdly, many investment banks opt to diversify the business structure and explore new business areas and markets such as green finance, technology finance and other emerging fields. By strengthening cooperation with other financial institutions, realizing resource sharing and business collaboration, innovate financial products and services, they are able to meet the needs of different customer groups. The Securities Times reporter found through interviewing and combing the performance presentation of various head brokerages that brokerages are seeking to diversify their business layouts, such as targeting state-owned enterprise mergers and acquisitions, industrial and financial cooperation, and New Third Board listing. At the same time, investment banks should not only be "investment banks", but also extend the service chain, strengthen internal coordination, and become comprehensive financial service providers [6]. Fourthly, improve the quality of listed companies. Strengthen the continuous supervision of listed companies to ensure that they continue to meet listing standards, promote technological innovation and management upgrading of listed companies, and enhance their core competitiveness. The relevant person of Minsheng Securities mentioned in an interview with reporters that the policy goal of the new "National Nine" is to improve the quality of listed companies from the source and guide the market to develop and optimize in a benign direction [6]. Through

regulatory policies to strengthen the guidance of the industry out of the homogenization of competition, change the industry "quantity, light quality" of the traditional way of practice, forcing brokerages to enhance value, and discovery ability; On the other hand, in order to enhance the sensitivity of future value judgment, the investment banking business system is actively transforming to "industry specialization". There are Minsheng securities refined subdivisions and small and medium-sized enterprises, to create a characteristic investment bank. It is understood that the company is more focused on information data and intelligent chips, biomedicine, new energy, military, advanced manufacturing and other industries of investment banking and collaboration business [7]. Fifthly, improve precision services. Provide customized services according to customer needs to improve the pertinence and effectiveness of services. Zhou Lefeng, president of Xiangcai Securities, proposed that small and medium-sized investment banks, as "boutique characteristic investment banks", should focus on business focus, regional deep cultivation, business sinking, and subtle services to build service-oriented investment banks. At the same time, Sinofold Securities responded that in combination with the current background of IPO and refinancing tightening, Sinofold investment banking business will pay more attention to the deep penetration of high-end and sophisticated industries based on conventional development, respond to the strategic needs of national economic structure transformation and upgrading and the development of new quality productivity, and vigorously develop customer resources of strategic emerging industries and future industries. At the same time, it is necessary to form a certain influence and brand effect in important regions and key industries [8]. Finally, the Beijing Stock Exchange expanded. PricewaterhouseCoopers (PWC) estimates that in 2024, the number of newly listed companies on the Beijing Stock Exchange is expected to reach 80 to 85, accounting for about 40% of the total number of newly listed companies on the A-share exchange.

As mentioned above, previous research mainly focuses on the adjustment of the investment banks' structure, the expansion of their service's scale and the diversification of their business. However, this paper will introduce two practical financial technologies to equity investment banks, specifically exploring how can blockchain and artificial intelligence benefit them in different fields of their business.

2. The Influence of Fintech on Equity Investment Banks

Financial Stability Board defines Fintech as financial innovation created by technology, which innovates the way financial institutions, financial markets or financial services are provided by changing business models, processes, applications or products [9]. Technological progress has promoted the innovation and diversification of financial instruments, and fintech companies have reduced operating costs, improved the efficiency of resource allocation, and promoted the update of financial products and the expansion of market scale [10].

Fintech can improve the management efficiency of investment banks. Securities firms use fintech to transform into smart operations. More and more securities companies use financial technology to realize the transformation to intelligent operation and build computing, storage, and servers through cloud computing technology, so as to realize the sharing of basic resources and automated management within the company and improve management efficiency. Through big data technology, securities companies can efficiently collect and analyze all kinds of internal and external data as well as their sources, characteristics, evolution trends and potential impacts, strengthening the deepening application in management decision-making, business handling, marketing services, risk control and compliance and other fields, give full play to the value of data and drive operations. Secondly, build a cloud platform through artificial intelligence technology, rely on big data, optimize algorithmic trading, and continue to launch artificial intelligence products in various fields, which can meet the personalized needs of customers and provide intelligent application services for the company's various businesses; Fourth, blockchain technology is providing new solutions to the pain points of the securities industry such as data security and credit verification with its open and transparent, immutable, and easy to track characteristics [11].

3. Practical Fintech Strategies

3.1. Blockchain

Blockchain is a distributed ledger technology that is usually used to record and verify transactions. Its core idea is to divide transaction data into blocks and arrange them chronologically to form a chain. Its main features are firstly decentralization, which has no single control center, and all participants in the transaction having equal rights. Secondly, it has great transparency and immutability. All transactions will be publicly visible. Moreover, once the data is recorded, it is almost impossible to be altered. Finally, it features high security. Only authorized users can conduct transactions and access sensitive information in the blockchain [12].

Equity investment banks can apply a distributed ledger in the process of equity financing business. In the background investigation stage of the targeted enterprise, the application of blockchain can easily and export the background data, covering the financial situation, corporate governance, business model and market competitiveness, etc., ensuring that the enterprise meets the requirements of IPO and reducing the cost of credit including network security and settlement procedures. A range of costs associated with security personnel and anti-fraud systems can be saved[13]. In addition, when equity investment banks assist enterprises in shareholding transformation, the application of a distributed ledger helps to clarify the definition of property rights. Moreover, it also facilitates financial audit and adjustment, ensuring the authenticity and reliability of financial data.

During the process of IPO, blockchain technology can improve the efficiency of coordinating with intermediaries (such as law firms and accounting firms). It can be used in fields such as recording and synchronizing data. It allows different agencies to update information timely, which includes the adjustment of subscription numbers, equity allocation, etc. With the application, delay and asymmetry of information in the listing process are substantially reduced, diminishing the risk of listing, and greatly saving the cost of time and labor in the process.

3.2. Artificial Intelligence

In recent years, as artificial intelligence technology has become more and more advanced, the integration of financial fields and artificial intelligence has become more in-depth. In equity investment banks, AI is often used in data analysis, risk assessment and supervision, operations, and other fields. At the same time, new forms of financial technology FinTech have emerged in these fields, which have brought more opportunities to provide financial services, such as digital lending platforms and asset management solutions, providing them with competitiveness in the context of IPO tightening, as well as a large reduction in equity investment bank income and economic downturn.

Artificial intelligence is a broad term that includes machine learning, aiming to use computing tools to solve tasks that traditionally require human intelligence. Its algorithms are very diverse. For instance, AI uses numerical methods to build quantitative representations and conduct analyses of the EcoFin system. In the process of M&A, as well as reorganization business, it is helpful for investment banks to apply them to select the qualified enterprise with potential and value. Moreover, it also uses time-series and signal analysis which was employed to analyze and forecast the temporal movement of financial variables, which is beneficial for the equity investment banks to carry out a deeper investigation of other companies and have a more comprehensive value evaluation. It allows investment banks to conduct more reasonable market analysis, as well as industry trend research. Hence investment banks can grasp the opportunities of development and design layout ahead of time. Many efficient statistic learning methods have slag been utilized, ranging from option pricing, and portfolio performance forecasting to modeling sequential trading behaviors. While equity investment banks design investment plans for companies, these digital models can help to modify them, providing more effective strategies including suitable maturity and investment amounts to minimize the risk [14]. Applying these artificial intelligence data analysis skills can help equity investment banks have a more comprehensive understanding of the financial situation and corporate structure of

the partner company, evaluate investment opportunities, and predict market trends better. In terms of capital operation, AI assistants can provide diverse financial services, ranging from risk evaluation, merger and acquisition consultation and equity structure optimization consulting. In short, it greatly saves labor costs and time costs through automation, optimizes business processes, and reduces the operating costs of investment banks.

4. The Diversification of Equity Investment Banks' Services

4.1. The Need for Diversification

Financial investment banks are faced with fierce market competition. In order to stand out from the competition, financial investment banks can use fintech to expand their business scope and provide one-stop financial services to meet the diversified needs of customers. Diversification helps financial investment banks to expand market share and enhance competitiveness. Second, financial investment banks that rely on traditional investment banking may face the risk of revenue fluctuations. Diversification can reduce the dependence on a single business and optimize the income structure with technology. Third, the economic environment and policy adjustments in emerging markets will have a great impact on financial investment banking. Diversified business can make financial investment banks better respond to market changes and improve their ability to resist risks.

4.2. The Meaning of Diversification

Financial investment banks use emerging digital technologies such as big data and cloud computing to diversify their business through fintech, which can spread risks, help them better adapt to market fluctuations and uncertainties, improve their resilience to risks, and enhance their competitiveness. It can also promote innovation, expand the scope of services, meet different customer needs, cover different industries, achieve diversification of service objects, and help increase market share.

4.3. Diversified Business Development Strategy

According to the literature written by Hu. The author summarizes 3 main strategies [15]. The first is the market layout strategy. Financial investment banks should focus on conducting business in the local market, seize market opportunities through an in-depth understanding of the local market, provide high-quality financial services to local customers, and consolidate their market position. Secondly, financial investment banks can take advantage of China's "The Belt and the Road" initiative to expand the markets of countries along the route, cooperate with local financial institutions, participate in infrastructure construction, cross-border mergers and acquisitions and other businesses, and promote the international development of business. Finally, financial investment banks can focus on developed markets, especially emerging markets, provide personalized wealth management services, use big data, artificial intelligence and other technologies to help investment banks better understand customer needs, attract overseas high-net-worth customers, and realize the globalization of business layout.

Secondly, enterprise development strategy. The diversified business development strategy of financial investment banks in emerging markets also needs to pay attention to business expansion strategy. First of all, financial investment banks can expand along the upstream and downstream of the industrial chain to provide one-stop financial services, such as expanding from traditional equity financing and debt financing business to high-end businesses such as mergers and acquisitions and asset restructuring, to meet the financing needs of enterprises in the whole life cycle. Second, financial investment banks should actively strengthen cooperation with financial technology enterprises, develop new business services such as Internet finance, blockchain and artificial intelligence, improve business efficiency through technological innovation, reduce operating costs, and provide customers with more convenient financial services. Finally, financial investment banks can cooperate with cross-border entities and Internet companies to jointly develop emerging markets, such as cooperating with technology companies to carry out equity investment, industrial funds and other businesses to help

the transformation and upgrading of the real economy. Cooperate with the cultural industry, invest in film, television, sports and other industries, and expand new business areas.

Thirdly, product innovation strategy. Financial investment banks can focus on the field of green finance and launch green bonds, green funds and other products to support sustainable development projects, which will not only help financial investment banks fulfill their social responsibilities, but also help financial investment banks seize the development opportunities of green industry and realize business innovation [15].

5. Conclusion

With the remarkable changes in the IPO market, this paper provides suggestions for equity investment banks in terms of financial technology including blockchain, AI and mass statistic analysis, which will help them maintain their competitive advantage in an increasingly complex market environment. As an important part of the chain of finance, the change of investment banks will also affect the future development of the entire financial industry. It provides a reference to related agencies to help them better understand the impact of IPO market tightening, as well as the remarkable benefit of applying Fintech. Additionally, it inspires them to formulate corresponding policies to promote the healthy development of the capital market with the gradual popularization of Fintech. What's more, this paper provides people with a new perspective for research in related financial fields, filling a part of the research gap in the existing literature.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

References

- [1] Gao, X., Ritter, J. R., & Zhu, Z. (2013). Where Have All the IPOs Gone? *The Journal of Financial and Quantitative Analysis*, 48(6), 1663–1692
- [2] Jing Ma, Yiwen Liu. To cope with the slowdown of equity financing, securities firms are promoting the diversification of investment banking business structures. *Securities Times*, 2024, 4, 26, A07
- [3] You, L. Y. (2023, September 14), How much impact will the actual tightening of IPOs have on securities companies? The comparable annualized incremental capital introduced exceeds RMB 100 billion, and brokerage firms are starting to pay attention to this signal
- [4] Wu, M. M. (2024, April 17), How tight is the IPO door? Q1 Number of listed companies' observation
- [5] Pástor, L., & Veronesi, P. (2005). Rational IPO Waves. *The Journal of Finance*, 60(4), 1713–1757
- [6] National Bureau of Statistics (NBS). (2024, July 15), The spokesperson of the National Bureau of Statistics answered reporters' questions on the performance of the national economy in the first half of 2024. *Official website of the People's Republic of China*
- [7] Chen chen. "Has the winter for investment banks arrived? With the slowdown in IPOs and refinancing, securities firms are aiming at mergers and acquisitions." *National Business Daily*, November 3, 2023, 008, Special Planning. doi: 10.28571/n.cnki.nmrjj.2023.003812
- [8] Jingting Guo. "Investment banking revenues have declined by 80% year - on - year. With the normalization of IPO review, securities firms are exploring potential in emerging industries" *China Business Journal*. 2024-07-15, B04, asset management. doi: 10.38300/n.cnki.nzgjy.2024.001571.
- [9] WANG, W. J., (2018). Financial technology and its application scenarios in China's securities industry. * *Journal of Hubei University of Economics (Humanities and Social Sciences)* , 15*, 3
- [10] HAN, Y. J., & DENG, L. C. (2019) Research and thinking on financial technology development in our country under new situation. * *Modern Management Science*, 7*
- [11] NIU, J. M., & HUANG, L., & LIU, H. M. (2022) Research on teaching reform of investment banking under the background of financial technology. * *China Management Informationization*, 25, 6*
- [12] Varma, J. R. (2019). Blockchain in Finance. *Vikalpa*, 44(1), 1 - 11
- [13] Casey, M., Crane, J., Gensler, G., Johnson, S., & Narula, N. (2018). The Impact of Blockchain Technology on Finance: A Catalyst for Change. *Geneva Reports on the World Economy 21*, International Center for Monetary and Banking Studies (ICMB), Centre for Economic Policy Research (CEPR)

- [14] Sreedhar Yalamati. (2022). FINTECH RISK MANAGEMENT: CHALLENGES FOR ARTIFICIAL INTELLIGENCE IN FINANCE. International Journal of Advances Engineering and Civil Research, 24(V), 48 - 65
- [15] HU.Y. F (2024). The diversified business development strategy of financial investment banks in emerging markets.
Datamesh