

ORANGE COUNTY BUSINESS JOURNAL

Roth Capital Finds Niche: Stock Sales for Chinese Companies

FINANCE: Ten deals worth \$264M this year; started push two years ago

■ By DAN BEIGHLEY

Chinese companies looking to tap U.S. investors—and vice versa—now make up a quarter of the business at Newport Beach investment bank Roth Capital Partners LLC.

“We never expected it to turn out that way,” Chief Executive Byron Roth said.

For years, Roth Capital has had a steady diet of handling stock sales for smaller Southern California companies, particularly those overlooked by big investment banks.

A big part of its business: private investment in public equity, or stock sales known as PIPEs.

The deals, which attract hedge funds and other investors, are a way for smaller public companies to sell shares without the cost of doing a big secondary offering.

Mutual funds and other investors like PIPEs because they allow them to buy shares for less than if they just went to Wall Street.

Now, Chinese companies are driving Roth Capital’s PIPE business, according to its chief executive. Last month, China Bak Battery Inc., a Shenzhen maker of rechargeable batteries that trades on Nasdaq, sold 3.5 million shares for \$13.6 million in a deal handled by Roth Capital.

In October, Roth Capital did three stock sales for Chinese companies: a \$39 million deal for wire maker Fushi International Inc.; a \$50 million sale for Zhongpin Inc., a maker of pork products; and a \$40 million deal for China Public Security Technology Inc., a security company.

This year, Roth Capital has done 10 deals worth \$264 million for Chinese companies that trade here, Roth said.

In 2006, it did three deals for \$56 million. It did its first deal with a Chinese company in 2005, which was worth \$43 million.

Roth Capital also does analyst reports on Chinese companies and handles trades of

their shares for mutual funds, hedge funds and other investors.

Last year, it added former Merrill Lynch & Co. chief economist and China expert Donald Straszheim as vice chairman.

Shanghai Office

Roth Capital has a 10-person office in Shanghai, where four of the workers are American analysts. The rest are Chinese working as support staff.

The goal of the office is to interact with companies Roth Capital follows or does work for, said Gordon McBean, Roth Capital’s director of research.

“You need to have your finger on the pulse of the industries everyday,” he said.

China’s growing economy attracted Roth Capital, Roth said.

“The numbers were there, you couldn’t ignore it,” he said.

When Roth came to what then was Cruttenden & Co. in 1992, about two-thirds of the investment bank’s business was in Southern California, he said.

The only global part of the operation was in Seattle, he joked.

Roth Capital expanded as institutional investors became less concerned with where a company is based, Roth said.

They’ve “become agnostic to where a company is located,” he said.

Roth said he’s traveled to China seven times in the past year and can’t get enough of the “capitalistic atmosphere.”

Long, energized workdays have become the norm in Shanghai, where people are creating fortunes from nothing, he said.

The downside to investing in China: the unpredictable nature of the government, Roth said.

Chinese companies list here to get around rules that otherwise make it tough for American investors to back them.



Roth on China:
“The numbers were there, you couldn’t ignore it”

But Beijing has fought to make it more difficult for companies to do so.

And even those that are listed here are prone to regulatory issues that stem from their formation, according to Roth.

Most of the companies became public through reverse mergers, where they bought smaller public companies or shell corporations here to gain access to their stock listing.

Doing so requires far less disclosure than a traditional initial public offering.

For investors, there are concerns over the companies growing too quickly, Roth said.

“Lots of little things could go wrong,” he said.

For Roth Capital, having an office in China has come with its own challenges.

Research director McBean moved his family there to start it from scratch two years ago. He’s no longer there.

“It was a big challenge, it’s a very different culture and I don’t speak Mandarin,” said McBean, who’s Scottish.

Everyone else at the office now speaks Mandarin, he said.

The analysts in the Shanghai office do the same work they would in the U.S. as far as analyzing markets and crunching numbers of companies.

Out of about 200 Chinese stocks trading in the U.S., Roth has its analysts cover about 20 of them.

Coaching

They also coach Chinese businesses on dealing with U.S. investors.

“We try to teach Chinese companies what American investors want,” McBean said.

Stressing the importance of conference calls is one of the ways Roth helps companies adapt to how things work in the U.S., McBean said.

Many of the Chinese stocks Roth deals in are thinly traded and are prone to erratic price swings.

Market valuations range from \$60 million to \$1 billion. ■