

# IPO Failure Case Study—The Case of Logicreation

Shicheng Ha \*

Yaohua High School, Tianjin, China

\* Corresponding Author Email: 20070838@huanghuai.edu.cn

**Abstract.** China's economy has shifted from a high-speed development stage to a high-quality development stage, and there is an urgent need for scientific and technological innovation to promote high-quality development. Since August 24, 2020, when the first batch of enterprises under the registration system of the GEM board were listed on the market, as of August 20, 2023, a total of 345 enterprises on the Shenzhen Stock Exchange have terminated their IPOs, and the reasons for the failure of their IPOs are more or less the same. In this paper, we take Beijing Logicreation Information & Technology Co., Ltd. (hereinafter referred to as Logicreation) as a case study to deeply investigate the reasons behind its IPO failure. By analyzing the information disclosed by the case company in the GEM audit, it is found that the reasons leading to Logicreation's failure to meet the requirements of the IPO audit can be broadly divided into two aspects. On the one hand, it is due to business compliance issues, while on the other hand, it also lies in its own unstable profitability. In view of the reasons for the failure of Logicreation's IPO, this paper suggests that the company should improve its internal control and clarify the relevant standards, improve its product structure and its profitability, so as to be ready for the next IPO filing. At the same time, it gives other enterprises to be listed a certain experience to learn from, and improves the chances of success of GEM IPO.

**Keywords:** Logicreation; IPO failure; cause analysis.

## 1. Introduction

### 1.1. Research Background

The stock issuance system in China Mainland is a registration system. Whether an enterprise can be listed, the price per share, the size of the issue, and the timing of the issue are basically determined by the regulatory authorities. Among other things, the regulator stipulates that an enterprise can only reapply for an IPO six months after the IPO has failed, and the reapplication also requires a longer period of time for re-queuing. At this point, case studies of IPO failures are very important for a company to avoid IPO failures. Case studies of IPO failures provide negative examples for companies that want to conduct IPOs so that these companies can go public as soon as possible to avoid losing too much time and economic costs. In the first half of the year 2023, there were a total of 236 companies applying for IPOs on the Shanghai and Shenzhen stock exchanges, and 8 of these enterprises' IPOs were rejected, and 97 enterprises voluntarily withdrew their applications, with the percentage of withdrawal as high as 44% [1,2]. This further reflects the importance of IPO failure case studies for enterprises' IPO preparation.

### 1.2. Literature Review

Scholars over the world have conducted relatively in-depth analysis and research on the registration system, but because the registration system in foreign countries started and developed earlier, and the system is now relatively more mature than in China, there is relatively little foreign literature analyzing the reasons for the failure of IPOs. There have been more studies on the reasons of GEM IPO failure in China. Wang Guohai (2009) summarized 10 reasons for IPO failure through examples, and gave detailed examples of the reasons for IPO failure of some enterprises in terms of asset source, dependence, transaction price and fairness, quality of accounting information, financial security, control hazards, stability, investment of fund-raising, and historical legacy problems [3]. Wang Tiantong and Chen Jianbing (2012) take the 2009 GEM rejected enterprises as a sample, and analyze it by comparing and contrasting with the main board IPO rejected situation and its reasons,

and find that the reasons leading to the enterprise rejected are attributed to the seven aspects of the company's standardized operation, finance and accounting, sustained profitability, fund-raising funds utilization, independence, subject qualification and information disclosure, especially in the first three aspects, GEM rejected proportion is higher [4]. Hongqi Yuan et al. (2020) found that audit failures of accounting firms significantly increase the rate of IPO rejection of their clients [5]. Lin and Sun Wenlong (2016) found that underwriter reputation and political connections contribute to the success of corporate IPO applications [6]. Dai Yiyi found that the higher the remaining of the sponsor, the higher the probability of the issuer passing the IPO audit [7]. Niu Feng (2016) showed that negative news coverage in the media reduces the chances of a company passing an IPO [8]. Sun Xiangyang et al. (2010) argued that insufficient reasons for enterprise financing, uncertain future development prospects, and outstanding growth characteristics of enterprises will lead to the failure of IPO applications of proposed listed companies [9]. Apart from China, Peter D Wysocki believes that the main reason for a company's failure is the characteristics of the company, for example, in the quality of accounting information and the willingness of investors to take the risk of the company [10]. Stephen et al. (2011) found that the main reason that led to the failure of the IPO of these companies by studying 945 companies that did not follow the planned time of IPO listing, the main reason that led to the failure of the IPO of these companies. Could be the lack of quality of data disclosed in these data [11].

### 1.3. Research Significance

The main research content of this paper is based on the background of the domestic IPO registration system, through the study of the failure of the IPO of Beijing Logicreation Information & Technology Co., Ltd. on the Shenzhen Stock Exchange, to understand some of the problems that exist in today's IPO failure enterprises. This paper first introduces the research background and significance of this paper, summarizes the research content of this paper, and combs through some of the domestic and international literature research results on IPO failure. Subsequently, it introduces the case of IPO failure of the case company, mainly including the case company profile and its IPO process, filling the background for the case analysis. Then this paper focuses on analyzing the reasons for the IPO failure of the case company, mainly exploring the real reasons for the IPO failure of Logicreation from the aspects of business compliance and finance. Finally, it gives suggestions to the case company from the aspects of strict supervision of business compliance and improvement of its own profitability; at the same time, it also reminds other proposed listed companies to pay attention to their own problems, and provides reference for other proposed listed companies to reduce their losses.

This paper takes the IPO failure of Logicreation as an example to study the problems of failed IPO enterprises and explore ways to solve them. It objectively analyzes the reasons for the failure of GEM IPO of the case company and suggests to improve the non-compliant parts to prepare for the next IPO. Meanwhile, it provides a reference for other similar companies to be listed to avoid excessive losses.

## 2. Logicreation IPO Failure Case Introduction

### 2.1. Basic Overview Of Logicreation

Logicreation is an enterprise mainly engaged in technology promotion. The predecessor company was founded on June 17, 2014, and changed to a joint-stock company on March 29, 2019 as a whole. The company mainly provides courses, &-books and other products to users online through books, newspapers, periodicals, "Get" App and "LuoJiSiWei" WeChat public number, etc., and provides skills training and other services to the audience offline through speeches and offline classes. The program is also available in the form of lectures, offline classes and other services.

## 2.2. Logicreation IPO Process And Results

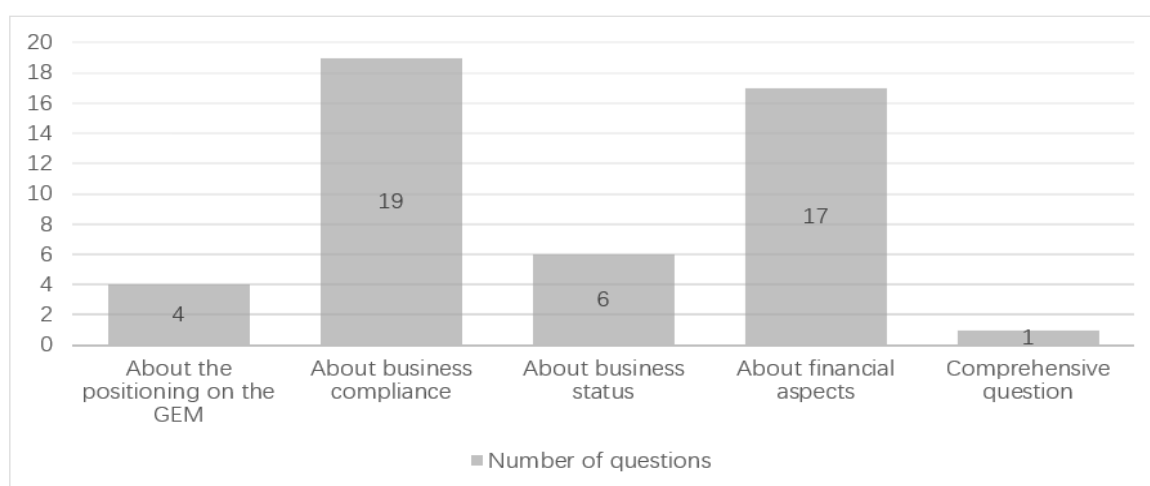
The specific process and results of Logicreation's application for listing on GEM are shown in Table 1. As can be seen from Table 1, since September 25, 2020, Beijing Logicreation Information & Technology Co., Ltd. submitted its IPO declaration to the Shenzhen Stock Exchange, it experienced three inquiries and three suspensions, and finally voluntarily withdrew its IPO application document on August 2, 2022 [1].

**Table 1.** Logicreation GEM IPO process.

Date	Course of events
2020.9.25	Logicreation Submits Declaration
2020.10.22	SZSE started to ask questions
2021.4.1	First Suspension
2021.4.30-2021.9.30	SZSE conducts first round of questioning
2021.9.30	Second Suspension
2021.12.28-2022.3.30	SZSE conducts second round of questioning
2022.3.31	Third Suspension
2022.6.28-2022.8.1	SZSE conducts third round of questioning
2022.8.2	Logicreation withdraws application documents

## 3. Analysis of the Reasons For The Failure of The IPO of Logicreation

In the SZSE's third round of audit inquiry letters to Logicreation published on March 27, 2022, the number of questions on business compliance and finance was much higher than the number of questions in other categories. The types of questions and the number of questions in each category in the third round of audit inquiry letters from the SZSE are shown in Figure 1. In the inquiry letter, the SZSE raised 19 questions about business compliance and 17 questions about financial aspects, in contrast to the total number of other questions of 10 [12]. It can be seen that the main reason for the failure of this IPO of Logicreation is its own business compliance problems and financial aspects. Therefore, the following paper will focus on analyzing these two aspects.



**Fig 1.** Type of questions and number of questions in various categories in the third round of SZSE's audit inquiry letters [12].

### 3.1. Business Compliance Issues – Take Get (Tianjin)'s Unlicensed Operation As An Example

Logicreation's subsidiary, get (Tianjin) Culture Communication Co., Ltd., went live with online knowledge services in 2016, with online audio-visual programs being the most prominent form of Logicreation's products. According to relevant regulations, the provision of audio-visual programs to the public requires the acquisition of relevant qualifications. As can be seen from Table 2, although Logicreation has a series of qualifications required to carry out business activities at this stage, such

as the Value-added Telecommunications Business License of the People's Republic of China, the Information Network Dissemination of Audio-visual Programs License, the Network Publishing Service License, the Radio and Television Program Production License, the Publication Business License of the People's Republic of China, the Food Business License and other qualifications required to operate the online knowledge service. However, the Information Network Dissemination of Audiovisual Program License and Network Publishing Service License required for online knowledge services were obtained through the indirect acquisition of Beijing Umiwi Multimedia Company by Logicreation in August 2019, which means that a series of online knowledge services and audiovisual businesses carried out by Logicreation in the three years from 2016 to 2019 were "unlicensed". With the status of "unlicensed", there is a compliance risk beyond the scope of the license. This clearly does not meet the conditions for IPO listing.

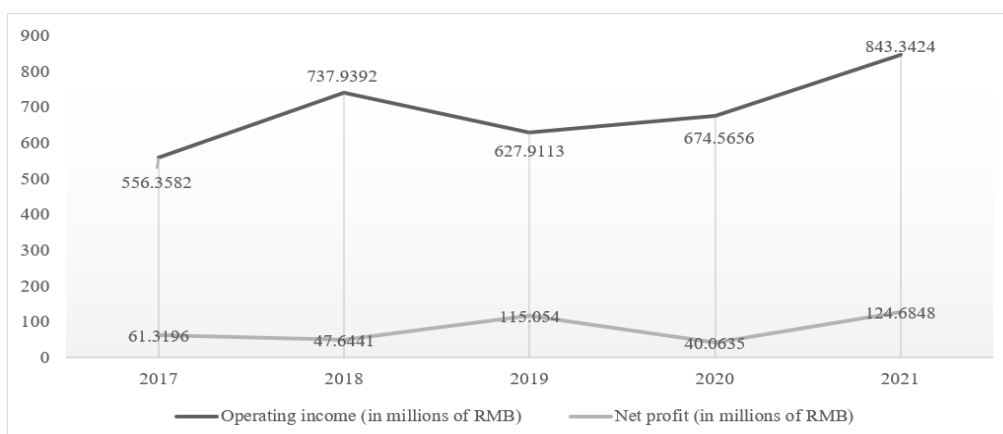
**Table 2.** Required qualifications already held by some subsidiaries of Logicreation [13].

Subsidiaries of Logicreation	Already held business qualifications
Get (Tianjin) Culture Communication Co., Ltd.	Value-added Telecommunications Business License of the People's Republic of China Radio and Television Program Production License Publication Business License of the People's Republic of China
Beijing Umiwi Multimedia Company	Value-added Telecommunications Business License of the People's Republic of China Radio and Television Program Production License Information Network Dissemination of Audio-visual Programs License Network Publishing Service License Food Business License Publication Business License of the People's Republic of China

### 3.2. Financial Aspects – Example of Earnings And Revenue Issues

#### 3.2.1. Unstable earnings

Logicreation's 2017-2021 operating income and net profit are shown in Figure 2, and 2017-2021 net profit margin is shown in Figure 3. As can be seen, Logicreation's profitability fluctuates. In 2019 and 2021, Logicreation's net profit is above 110 million RMB, but its net profit in 2017, 2018, and 2020 is not more than 62 million RMB, so the performance fluctuates greatly. In addition, after comparing the operating income and net profit data, it is found that during the period of 2017-2020, the growth trend of the operating income and net profit of Logicreation shows a situation of divergence [14, 15]. On the contrary, the net profit margin situation in 2017-2021, the net profit margin in 2017, 2019 and 2021 is higher than 10%, especially in 2019, the net profit margin of Logicreation has been close to 20%, but its net profit margin in 2018 and 2020 is about 6%, which is a large gap compared to the two. Overall, Logicreation's operating income and net profit as well as net profit margin show instability.



**Fig 2.** Logicreation’s operating income and Net profit 2017-2021 [14, 15].

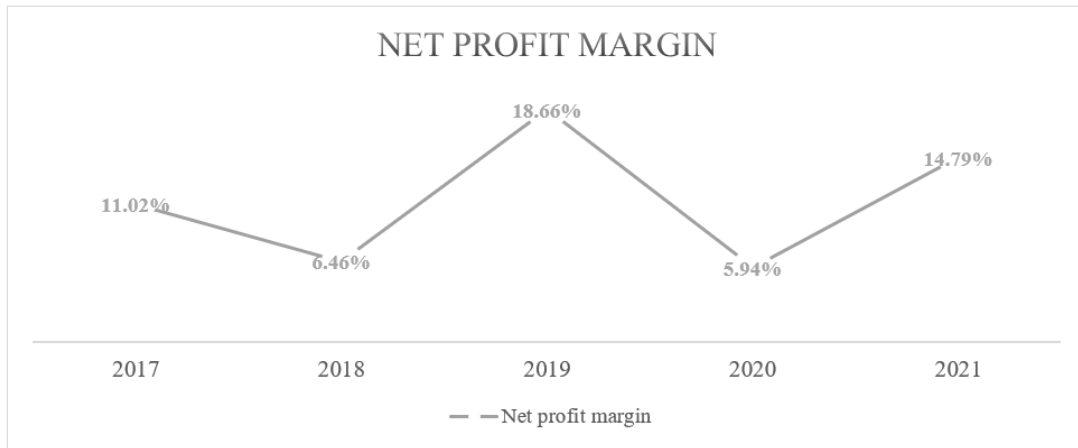


Fig 3. Logicreation’s Net profit margin 2017-2021.

**3.2.2. Significant impact of the epidemic on major business revenues**

At the beginning of 2020, the new coronavirus ravaged the world, and most of the enterprises stopped work and production at the request of the relevant authorities, resulting in poor economic conditions across the country in 2020-2021, with enterprises experiencing a decline in business conditions or even closing down. As shown in Figure 2 and Figure 3, Logicreation also experienced a serious decline in profitability during the epidemic (2020), which seriously affected the normal profitability of enterprise. Therefore, this paper out of the two cases of the offline inter-annual presentations and offline courses to analyze the impact of the epidemic.

(1) Offline inter-annual presentations

Logicreation offline mainly monetizes with presentations, and its annual New Year's Eve presentations are larger in scale among its many presentations offline. However, since the outbreak of the new crown epidemic in 2020, the requirements for epidemic prevention and control of large-scale activities have become more stringent around the world, resulting in little or even zero income from the New Year's Eve presentations. In the 2020-2021 inter-annual presentation, some of the audience could not be present due to the epidemic prevention and control requirements, and Logicreation refunded the ticket processing, and the loss of revenue amounted to 4.39 million RMB [12]. In the 2021-2022 inter-annual presentation, this presentation was held empty due to the offline control of the place where the presentation was held, and the loss of revenue was as high as 8.02 million RMB, and the indirect loss of advertising rights and interests’ revenue was 2.02 million RMB [12]. As seen in Figure 4, the epidemic had a greater impact on the offline presentations of Logicreation, resulting in a higher loss of Revenue for Logicreation.

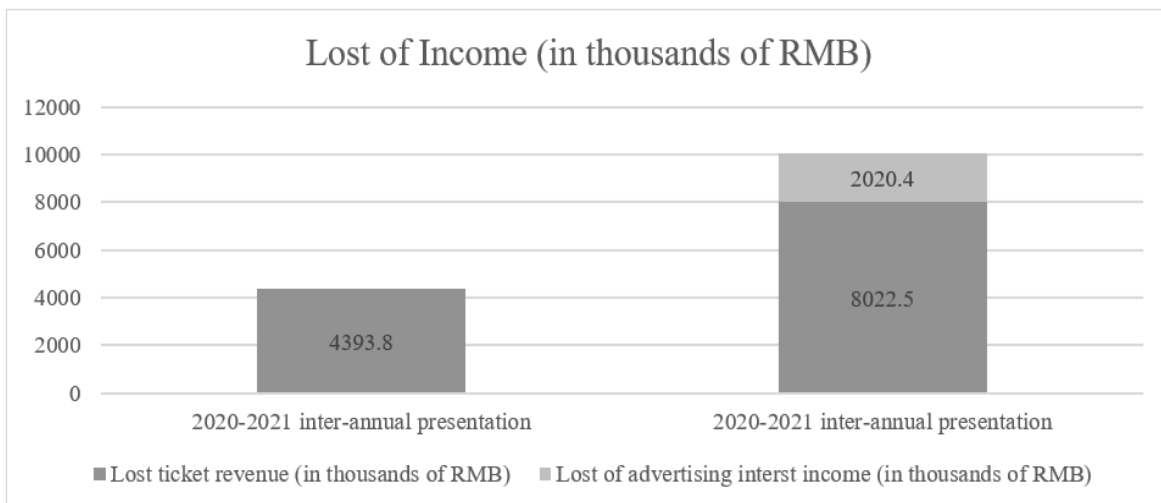
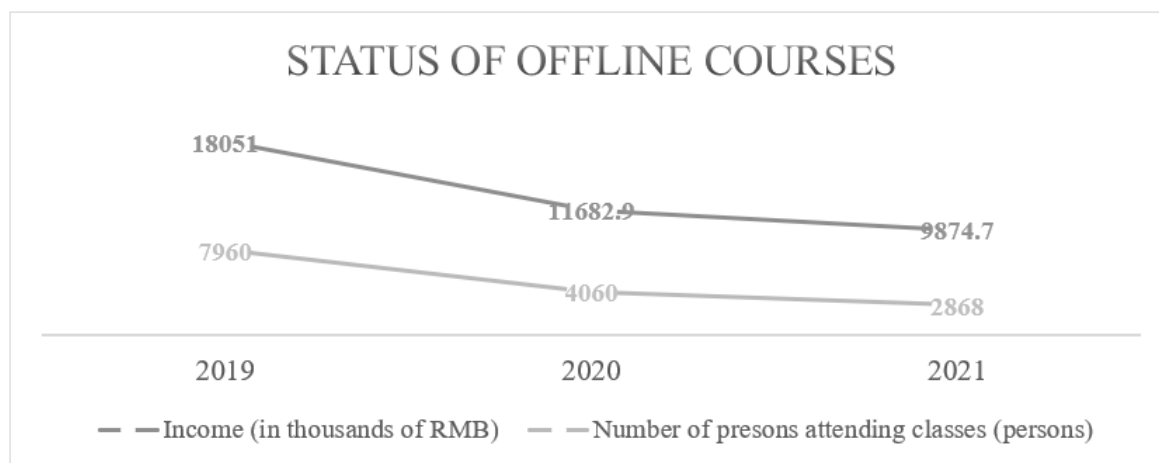


Fig 4. Logicreation’s loss of income from inter-annual presentations during the epidemic [12].

## (2) Offline courses

As a result of the epidemic, since the beginning of 2020, the revenue from offline courses held by Logicreation has decreased year by year and the number of class participants has also shown a downward trend, as shown in Figure 5. 2020 saw a decrease of 48.99% in the number of class participants and a decrease of 35.28% in the revenue compared to 2019, while 2021 saw a decrease of 29.36% in the number of class participants compared to 2020, with a decrease in the revenue of 15.48%. Both declines are proportionately higher than their normal fluctuations, reflecting the impact of the epidemic on offline classes.



**Fig 5.** Status of Logicreation's offline courses before and after the epidemic [12].

## 4. Conclusion

To summarize, offline inter-annual presentations and offline courses are the two main ways for Logicreation to make profits offline, which can roughly reflect the general situation of Logicreation's offline operation. During the epidemic period of the offline inter-annual presentations and offline courses, the business situation and capital flow were not optimistic, which also indirectly reflected that the epidemic had caused greater losses to Logicreation. In the external impact of the epidemic led to a substantial reduction in their own income, Logicreation also has its own business compliance issues and profitability is not stable, the problems accumulate into a large number of problems, which jointly led to the failure of the enterprise IPO. Nowadays, China has already relaxed the epidemic control policy, Logicreation should pay attention to and strengthen its own management and control, and resolutely prevent the business compliance problems from occurring again, and at the same time, seize this period of China's economic recovery, and strive to improve its profitability, focusing on solving a series of unstable income problems caused by the impact of the epidemic. At the same time, the failure of Logicreation's IPO also reminds other companies preparing for IPO to focus on their own problems, and to identify and thoroughly solve their own problems before applying for IPO, so as not to make the same mistake as Logicreation; at the same time, they should also actively alleviate a series of financial problems brought about by the impact of the epidemic, and do a good job of preparation before applying for IPO. If the enterprise itself does not have excellent core competitiveness and perfect management system will be very difficult to pass the GEM, SSE Star Market and motherboard's IPO application. Enterprises should focus on their own long-term development, focus on business operations, and improve internal control mechanisms, so as to provide a broad space for the future development of enterprises.

## References

- [1] Shenzhen Stock Exchange Issue and Listing Review Information Public Website. <http://listing.szse.cn/projectdynamic/ipo/index.html>. Accessed August 20, 2023.

- [2] SSE Issuance and Listing Review. <http://listing.sse.com.cn/renewal/>. Accessed August 20, 2023.
- [3] G.H. Wang. Analysis of the Reasons for the Failure of IPO of Some Enterprises. *Finance & Accounting (General Edition)*, 2009(11):14-16, 27. DOI: 10.3969/j.issn.1003-286X.2009.11.005.
- [4] T.D. Wang, J.B. Chen. Analysis of IPO rejection and its reasons on GEM. *Communication of Finance and Accounting*, 2012.DOI: CNKI: SUN: CKTX.0.2012-02-019.
- [5] H.Q. Yuan; C.J. Zhang; D.S. Kong; H.N. Shi. Audit failure and accounting firm reputation loss: Evidence from IPO audits. *Accounting Research*, 2020,03:157-163
- [6] L. Lin, W.L Sun. Analysis of IPO rejection and its reasons on GEM. *Communication of Finance and Accounting: middle*, 2016.
- [7] Y.Y. Dai, Y. Pan, J. Chen. Dual Sponsor Reputation, Social Integrity and IPO Passage. *Journal of Financial Research*, 2014(6): 16.DOI: CNKI: SUN: JRYJ.0.2014-06-010.
- [8] F. Niu, Y. Ye, X.D. Chen. A study of media coverage and stock issue pricing of IPO firms-Empirical evidence from Shenzhen small and medium-sized board listed companies. *Business Review*, 2017, 29(11):50-61.
- [9] X.Y. Sun, G. Wang, Z.X. Shan. An analysis of the reasons for the failure of IPO application of GEM proposed listed companies. *Finance and Accounting Monthly (Part 2)*, 2010(4): 3.DOI: CNKI: SUN: CKYK.0.2010-11-007.
- [10] Wysocki P D. Discussion of IPO Failure Risk. *Journal of Accounting Research*, 2007, 45(2): 373-384.DOI:10.1111/j.1475-679X.2007.00237. x
- [11] Baginski S P, Hassell J M, Wieland M M. An examination of the effects of management earnings forecast form and explanations on financial analyst forecast revisions. *Advances in Accounting*, 2011, 27(1): 17-25.DOI: 10.1016/j.adiac.2011.01.005.
- [12] Response to the Third Round of Audit Enquiry Letter Regarding the Application Documents for Initial Public Offering of Shares and Listing on GEM Board of Beijing Logicreation Information & Technology Company Limited. [http://reportdocs.static.szse.cn/UpFiles/rasinfodisc1/202203/RAS\\_202203\\_00017FC177CAAE3FEB06CFC9B3DC4B3F.pdf](http://reportdocs.static.szse.cn/UpFiles/rasinfodisc1/202203/RAS_202203_00017FC177CAAE3FEB06CFC9B3DC4B3F.pdf). Accessed August 20, 2023.
- [13] Response to the Audit Enquiry Letter Regarding the Application Documents for Initial Public Offering of Shares and Listing on GEM Board of Beijing Logicreation Information & Technology Company Limited. [http://reportdocs.static.szse.cn/UpFiles/rasinfodisc/RAS\\_000176376CFA453FD947F884835F623F.pdf](http://reportdocs.static.szse.cn/UpFiles/rasinfodisc/RAS_000176376CFA453FD947F884835F623F.pdf). Accessed August 20, 2023.
- [14] Prospectus for Initial Public Offering of Shares and Listing on GEM Board of Beijing Logicreation Information & Technology Company Limited (Draft Declaration) (2020.9.25). [http://reportdocs.static.szse.cn/UpFiles/rasinfodisc/RAS\\_000174A1E053D63FD610A8ED7DFC2A3F.pdf](http://reportdocs.static.szse.cn/UpFiles/rasinfodisc/RAS_000174A1E053D63FD610A8ED7DFC2A3F.pdf). Accessed August 20, 2023.
- [15] Prospectus for Initial Public Offering of Shares and Listing on GEM Board of Beijing Logicreation Information & Technology Company Limited (Draft Declaration) (2022.6.29). [http://reportdocs.static.szse.cn/UpFiles/rasinfodisc1/202206/RAS\\_202206\\_0001814686E1DF3FE3DFA6D5C6019A3F.pdf](http://reportdocs.static.szse.cn/UpFiles/rasinfodisc1/202206/RAS_202206_0001814686E1DF3FE3DFA6D5C6019A3F.pdf). Accessed August 20, 2023.