

Thinking of Listing on the NASDAQ?

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Introduction

The U.S. securities market represents one of the largest sources of capital in the world, with a deep pool of liquidity and broad investor base that is not just looking at dividends and value but focused on the growth of companies. While initial public offerings in the US are down significantly from 2021, when there were 1,000 IPOs in the US, the U.S. has managed to maintain a relatively robust market with 185 and 153 IPOs in 2022 and 2023, respectively. While IPOs on U.S. exchanges remains somewhat depressed, the U.S. market has retained some resiliency in the global economic headwinds that slowed overall IPO activity, as compared to the downward trend in IPOs around the globe, including China and Hong Kong.

Capital is the main reason why so many companies decide to list on U.S. exchanges which is home to two of the world's largest stock exchanges by market capitalization – the New York Stock Exchange with an equity market cap of over US\$25 trillion and the Nasdaq with an equity market cap of over US\$23 trillion on December 31, 2023. A total of 3,584 companies were listed on the NASDAQ as of December 2023, with 826 of those companies being international enterprises.

Listing Considerations

There are a number of considerations for any issuer looking to enter into the US securities market including transaction structure and financing, historical track record, strong corporate governance, and management structures, to name a few. While the process for an IPO on NASDAQ may not look easy at a first glance, the process is streamlined and efficient when compared with other foreign exchanges. For example, in China the securities rules and regulations are known to be incredibly strict, in Europe companies face increasing bureaucracy, regulatory requirements and restrictions, and the IPO vetting process in Hong Kong and other jurisdictions can be lengthy and

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inefficient.

The following charts provide a quick overview of the quantitative initial listing standards for NASDAQ. The NASDAQ stock exchange exercises broad discretion in listing a company and the fact that an issuer meets the quantitative initial listing standards does not mean an automatic approval for listing.

Listing Standards

NASDAQ is split into three tiers: the Nasdaq Global Select Market, the Nasdaq Global Market and the Nasdaq Capital Market. The below tables summarize the listing requirements for each market tier.

1. Nasdaq Global Select Market Listing Requirements

Companies will need to meet all of the criteria under at least one of the four financial standards below to qualify for listing on the Nasdaq Global Select Market.

Requirements	Standard 1: Earnings	Standard 2: Capitalization with Cash Flow	Standard 3: Capitalization with Revenue	Standard 4: Assets with Equity
Pre-Tax Earnings (income from continuing operations before income tax)	Aggregate in prior 3 fiscal years $\geq \$11,000,000$ and Each of the 2 most recent fiscal years $\geq \$2,200,000$ and Each of the prior 3 fiscal years $\geq \$0$	N/A	N/A	N/A
Cash Flows	N/A	Aggregate in prior 3 fiscal years $\geq \$27,500,000$ and	N/A	N/A

		each of the prior 3 fiscal years $\geq$ \$0		
Market Capitalization	N/A	Average $\geq$ \$550,000,000 over prior 12 months	Average $\geq$ \$850,000,000 over prior 12 months	\$160,000,000
Revenue	N/A	Previous fiscal year $\geq$ \$110,000,000	Previous fiscal year $\geq$ \$90,000,000	N/A
Total Assets	N/A	N/A	N/A	\$80,000,000 (in last completed fiscal year)
Shareholders' Equity	N/A	N/A	N/A	\$55,000,000
Bid Price	\$4.00	\$4.00	\$4.00	\$4.00
Market Value of Publicly Held Securities	\$45,000,000	\$45,000,000	\$45,000,000	\$45,000,000
Unrestricted Publicly Held Shares	1,250,000	1,250,000	1,250,000	1,250,000
# Unrestricted Round Lot Shareholders	450	450	450	450
Market Makers	3 or 4	3 or 4	3 or 4	3 or 4
Operating History	N/A	N/A	N/A	N/A

Source: <https://listingcenter.nasdaq.com/assets/initialguide.pdf>

2. Nasdaq Global Market Listing Requirements

Companies must meet all of the criteria under at least one of the four standards below in order to qualify for listing on Nasdaq Global Market.

Requirements	Income Standard	Equity Standard	Market Value Standard	Total Assets/Total Revenue Standard
Income from Continuing Operations before Income Taxes (in latest fiscal year or in 2 of last 3 fiscal years)	\$1,000,000	N/A	N/A	N/A
Shareholders' Equity	\$15,000,000	\$30,000,000	N/A	N/A
Market Value of Listed Securities	N/A	N/A	\$75,000,000	N/A
Total Assets and Total Revenue (in latest fiscal year or in 2 of last 3 fiscal years)	N/A	N/A	N/A	\$75,000,000 and \$75,000,000
Unrestricted Publicly Held Shares	1,100,000	1,100,000	1,100,000	1,100,000
Market Value of Unrestricted Publicly Held Stock	\$8,000,000	\$18,000,000	\$20,000,000	\$20,000,000
Bid Price	\$4.00	\$4.00	\$4.00	\$4.00
Unrestricted	400	400	400	400

Round Lot Shareholders				
Market Makers	3	3	4	4
Operating History	N/A	2 years	N/A	N/A

Source: <https://listingcenter.nasdaq.com/assets/initialguide.pdf>

3. Nasdaq Capital Market Listing Requirements

Companies must meet all of the criteria under at least one of the four standards below in order to qualify for listing on Nasdaq Capital Market.

Requirements	Equity Standard	Market Value of Listed Securities Standard	Net Income Standard
Shareholders' Equity	\$5,000,000	\$4,000,000	\$4,000,000
Market Value of Unrestricted Publicly Held Stock	\$15,000,000	\$15,000,000	\$5,000,000
Operating History	2 years	N/A	N/A
Market Value of Listed Securities	N/A	\$50,000,000	N/A
Net Income from Continuing Operations (in latest fiscal year or in 2 of last 3 fiscal years)	N/A	N/A	\$750,000
Unrestricted Publicly Held Shares	1,000,000	1,000,000	1,000,000
Unrestricted	300	300	300

Round Lot Shareholders			
Market Makers	3	3	3
Bid price or Closing Price	\$4.00 /\$3.00	\$4.00 /\$2.00	\$4.00 /\$3.00

Source: <https://listingcenter.nasdaq.com/assets/initialguide.pdf>

Implications and Challenges

Navigating the intricate landscape of cross-border regulatory compliance is essential for foreign issuers seeking to IPO on NASDAQ, involving adherence to complex U.S. securities laws, accounting norms, and corporate governance standards, necessitating meticulous planning and collaboration with legal and financial experts. Cultural and language barriers may present challenges for foreign companies entering the U.S. market, emphasizing the importance of effective communication and understanding investor expectations. Further, the current environment of geopolitical tensions and economic uncertainties can influence the appeal of U.S. IPOs for foreign issuers, with factors such as trade disputes and regulatory changes impacting market stability and investor confidence.

Conclusion

The trend of issuers choosing the U.S. for IPOs reflects the continued recognition of the U.S. securities market as one of the largest sources of capital in the world enhanced, providing companies with greater liquidity opportunities. However, navigating the regulatory and cultural challenges associated with cross-border listings is essential for a successful IPO. Issuers based in Mainland China, Hong Kong, or other parts of Asia will find Dorsey's international legal team possesses extensive experience and knowledge regarding U.S. capital markets while also being well-versed in bridging gaps in culture and language as part of its commitment to deliver high-quality legal services to clients.

If you would like to discuss any of the matters mentioned in this eUpdate, please contact Megan Penick, Hilda Chan, or Janice Wong.