

Research on the Effectiveness and Response Mechanism of Enterprise Anti-Shorting Strategy

——Take Muddy Waters' short sale of Anta Sports, for example

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ABSTRACT

With the deepening participation of Chinese enterprises in the global capital market, Chinese concept stocks have become an important channel for overseas financing. However, since 2010, Chinese companies have been repeatedly shorted due to the trust crisis, and information disclosure problem has become the focus of attacks by short sellers. This article takes Muddy Waters short Anta Sports as an example, analyzes the strategies of Chinese stocks to deal with the short crisis, and puts forward suggestions on improving information disclosure, improving the awareness of crisis prevention and coping ability. The study found that Anta Sports successfully counter Muddy Waters' short selling with emergency suspensions, clarification announcements and earnings reports, which not only confirmed the authenticity and integrity of its financial information, but also boosted investor confidence and gained broad support. Still, Anta still has room for improvement in the integrity and transparency of information disclosure, which is closely related to its corporate governance structure. Based on the "crisis management theory", this paper provides a comprehensive anti-short strategy for Chinese enterprises, including improving the corporate governance structure, improving the quality of information disclosure, and quickly responding to their suggestions on information disclosure content. These strategies can help enterprises to prevent and deal with the short crisis more effectively and achieve the crisis transformation.

KEYWORDS

Anta Sports; Short seller; Information disclosure; Chinese concept; Anti-short

1. INTRODUCTION

With the deepening of global economic integration, Chinese concept stocks attract the attention of international investors, but they also face the challenge of short selling activities. Muddy Waters is a well-known short-selling agency that has repeatedly issued short reports against Chinese companies, including questions about Anta Sports. In the face of short selling attacks, Anta Sports successfully responded to the crisis through timely clarification, strengthening information disclosure and internal control measures, maintained the stability of the stock price and market reputation, and provided other companies with the experience of anti-shorting. This study takes Muddy Waters' shorting Anta Sports as an example to explore the effectiveness and response mechanism of enterprise anti-short strategy. By analyzing the specific strategies and measures of Anta Sports in the process of anti-shorting, evaluating its effect, and summarizing the experience and lessons, it aims to provide anti-short strategy framework and response mechanism for other listed companies.

2. MUDDY WATERS SHORT ANTA SPORTS CASE INTRODUCTION

2.1. Basic Information Introduction of Short-Selling Institutions

Muddy Waters (Muddy Waters Research) is an internationally renowned short-selling agency, founded in 2010 by Carlson Block (Carson Block). The agency, which focuses on investigating and exposing financial fraud and misconduct by listed companies, is named by the Chinese idiom "fish in troubled waters" as a symbol of the search for investment opportunities amid market chaos.

2.2. Anta was Introduced by the Air Concept Company

Anta Sports (Anta Sports) is a leading sporting goods company in China. It was founded in 1991 and listed on the Hong Kong Stock Exchange in 2007. Anta mainly produces and sells sports shoes, clothing and accessories, and owns a number of brands, including Anta and FILA, occupying an important position in China's sporting goods market.

2.3. Short-Selling Event Review

Muddy Waters, starting in July 2019, has released a series of short-selling reports on Anta Sports, questioning the authenticity of its financial data and accusing Anta of making inflated profits by controlling its dealers. Anta Sports has reinforced the charges

Denied and counter a series of measures, including emergency suspension, clarification announcements and release of detailed financial data.

The event timeline is shown below table1:

Table 1. Time chart of Anta Sports in 2019

Date	Short report	Anta response measures	Settlement (HongKong dollar)	price limit (%)
On July 8	Issue the first short report	halt	51.25	-7.32
On July 9	Issue the second short report	Restore trading and issue clarification announcements	51.35	0.20
On July 11	Issue the third challenge report	Release clarification notice	51.30	0.98
On July 15	Issue the fourth short report	—	52.95	2.92
On July 22	Issue the fifth short report	Issue a fourth clarification report	57.30	1.87

3. MUDDY WATERS SHORT ANTA SPORTS CASE ANALYSIS

3.1. Rational Analysis of the Short-Selling Report

3.1.1. Financial position

This paper analyzes and compares a number of financial data from Anta and its main domestic competitors, Li Ning and Xtep, as well as its international competitor, Nike, from 2016-2020, focusing on Anta's unprecedented profitability, solvency and operating ability. As show in table2.

Table 2. Comparison of Anta's financial indicators with its main domestic competitors in 2016-2020

financial index	brand	2016	2017	2018	2019	2020
gross profit margin	ANTA	48.4	49.37	52.64	55	58.15
	Lining	46.23	47.06	48.07	49.07	49.07
	Xtep	43.2	43.89	44.31	43.39	39.14
	nike	44.58	43.84	44.67	44.32	44.82
Cost and expense profit margin	ANTA	32.1	33.5	30.2	30.4	28.7
	Lining	3.67	6.3	8.6	15	17.8
	Xtep	18	14	17	15	9.8
	nike	16.6	16.5	13.5	13.9	8.6
current ratio	ANTA	2.38	2.95	2.17	1.52	2.32
	Lining	1.38	1.88	1.85	1.51	1.68
	Xtep	2.23	2.88	2.2	2.24	2.42
	nike	2.01	1.63	1.39	1.59	2.01
quick ratio	ANTA	2.38	2.95	2.17	1.52	2.32
	Lining	1.38	1.88	1.85	1.51	1.68
	Xtep	2.23	2.88	2.2	2.24	2.42
	nike	2.01	1.63	1.39	1.59	2.01
asset-liability ratio	ANTA	30.42	24.71	32.22	48.9	50.21
	Lining	41.05	30.7	33.22	43.22	40.46
	Xtep	38.55	40.35	42.04	43.52	41.94
	nike	46.66	54.46	61.88	74.3	66.17
inventory turnover ratio	ANTA	5.96	4.9	4.52	4.18	3
	Lining	4.48	4.54	4.66	5.34	5.35
	Xtep	7.15	4.87	4.58	4.92	4.92
	nike	3.85	3.96	3.98	3.26	3.46
fixed asset turnover	ANTA	11.65	14.07	16.12	17.24	16.4
	Lining	10.22	10.65	12.6	14.84	13.74
	Xtep	8.92	8.09	9.92	12.57	11.21
	nike	9.15	8.62	8.51	7.78	9.12
average accounts receivable turnover ratio	ANTA	9.34	8.87	10.49	10.6	9.31
	Lining	5.6	7.3	10.17	17.17	22.2
	Xtep	2.7	2.62	3.26	3.26	2.66
	nike	9.93	10.15	10.07	10.65	12.4

Data source: choice Financial terminal, Foresight network

(1) Profitability analysis

In the past five years, Anta has not only consolidated its industry leading position in different market levels through its main brand and acquisition brand FIL A, but also continued to lead and steadily grow its gross margin. In particular, in 2018, the success of FILA brand in the sports fashion field has significantly improved the group's overall gross margin. While short seller Muddy Waters questioned its financial data, Anta effectively refuted these doubts and boosted investor confidence through the FILA performance data disclosed in its 2019 interim report.

Anta's stability in cost margins and leading position in the industry, especially in the face of the challenges of rising costs in 2018 and the global pandemic in 2020.19, further verify its financial health and profitability, demonstrating a significant advantage in controlling costs and improving profits.

(2) Debt repayment analysis

Anta's short-term solvency is strong before the 2019 table, despite the decline in 2020; its long-term solvency is reflected by the asset-liability ratio index, although the asset-liability ratio increases due to the acquisition, it remains at a low level, showing good solvency.

(3) Operation capacity analysis

Operating capacity is a key index to measure the use efficiency of enterprise assets. This study is evaluated by three indexes: inventory turnover, fixed asset turnover and total asset turnover. Although the inventory turnover rate of Anta Group shows a downward trend, it is mainly caused by the impact of the direct sales model after the acquisition of FILA and the growth of e-commerce business, which does not represent the decline of actual profits. In fact, Anta's fixed asset turnover rate remains the leading company in the industry, showing high operating efficiency. In addition, Anta's healthy receivables turnover rate is comparable to industry giant Nike, indicating that its operating capacity continues to grow.

After in-depth analysis of the unprecedented financial indicators of Anta Sports, the results show that compared with domestic industry competitors and international companies, Anta has shown strong profitability, stable debt level and continuously improving operating efficiency, and the overall performance is excellent. These conclusions provide strong evidence to refute Muddy Waters' doubts about Anta's financial position.

3.1.2. Information disclosure

Muddy Waters' main doubts about Anta focus on FILA, the inconsistent number of brand stores and the undisclosed financial information. Anta did not disclose FILA's financial position until 2019, and only responded vaguely to growth issues in its earnings release. Although FILA, as an important contributor to Anta's revenue growth, has grown rapidly in China, Anta has retained some high-quality franchisees, such as Beijing, Harbin and other regions, due to the historical transfer of Belle to Anta after FILA losses in 2008. Although the market knows that Anta is gradually buying back control of these franchisees, Muddy Waters has made charges without sufficient investigation. After the short sale, there was opinions that Anta needs to improve transparency. CLSA said in a research report that even without the muddy Waters allegations, Anta's share price could be under pressure in a weak market environment due to the lack of transparency in corporate governance and information disclosure.

3.1.3. Corporate governance aspects

Muddy Waters has raised questions about Anta's short reports, including major shareholders' personal gains by selling international branded retail businesses and secret control of primary dealers to improve profit margins, which appear to point to corporate governance issues. In response to the allegations, Anta Sports clarified that there was no control relationship with the distributor, and that the distributor was called a "subsidiary" with no legal meaning, and that the profit margin does not directly prove the governance problem. Regarding the fire sale of assets, Anta explained that the sale is to focus on the core business, and the transfer at a reasonable price, not to remove high-quality assets. Anta executives and major shareholders have not reduced their shares or pledged in the past five years, indicating that the company has not harmed the interests of minority shareholders through improper means.

3.2. Anta's Measures to Deal with the Short Crisis and the Reasons for Success

3.2.1. Anta Sports' measures to deal with the short-selling crisis

In the face of short selling, Anta Sports quickly adopted an emergency suspension strategy, effectively maintained the stability of the stock price and protected the company's market value and assets. After Muddy Waters issued a short report that caused the stock price to fall, Anta immediately

announced the suspension, and then issued a clarification notice to gain time to deal with the crisis and reduce potential losses, highlighting the key role of emergency suspension in stock price management. At the same time, after the new report, Anta quickly issued a clarification notice, refuted the doubts in detail, clarified the company's position, and reserved the right to pursue legal responsibility. This firm attitude strengthened investor confidence and helped to stabilize the stock price.

In addition, through the timely release of performance reports, Anta has improved the transparency and fairness of information disclosure, ensured investors' right to know, and reduced the impact of information asymmetry. When the financial data changes significantly, the company provides detailed explanations to help investors understand the state of the business and make informed decisions. For example, in July 2019, Anta released its second quarter operating report and interim financial report, which demonstrated significant growth in operating profit and gross profit, disclosed details of FILA brand performance, effectively responded to market doubts, and further enhanced investor confidence. These measures together reflect Anta's comprehensive strategy in dealing with the short crisis, aiming to maintain the corporate image and stabilize market confidence.

3.2.2. Analysis of the reasons for the success of Anta Sports counterattack

Anta Sports' successful resistance to short attacks is due to the authenticity and integrity of its financial information. Since 2018, it has strictly followed international Financial Reporting Standards and Hong Kong Financial Reporting Standards, and has ensured financial transparency and reliability through KPMG audited unqualified reports. In the face of Muddy Waters' doubts, Anta, through its sound financial position, effectively refuted the allegations of the short selling agency with timely clarification, stabilized the stock price and enhanced investor confidence. The company also quickly took measures such as emergency trading suspension and performance report release, showing the business stability and development potential, winning the trust of investors and rating agencies, and maintaining the buy rating, providing strong support for the company to survive the short selling crisis. Anta's excellent performance and management transparency have played a key role in the process, winning the company wide recognition from the market and investors.

4. IN THE STOCK TO DEAL WITH THE SHORT CRISIS ADVICE

4.1. Improve the Corporate Governance Structure

When there are problems in internal governance, they often lead to corruption and other adverse consequences, increasing the risk of internal fraud. Therefore, for enterprises with concentrated equity ownership and imperfect governance structure, it is urgent to optimize internal governance and strengthen internal control. In particular, if the equity of Chinese concept enterprises is too concentrated, it may lead to the phenomenon of "one voice hall" in the decision-making process, which may improve the decision-making efficiency, but it also increases the risk of shareholders manipulating information disclosure and illegal cash out. In order to maintain the long-term healthy development of the enterprise, it is necessary to strengthen the standardized management of the board of directors, ensure the effective supervision of the audit committee, and at the same time create a good culture of self-examination and self-correction within the enterprise to ensure the transparency and integrity of the enterprise operation, so as to avoid the occurrence of moral hazard.

4.2. Improve the Quality of Information Disclosure

After listing overseas, Chinese concept enterprises must improve the quality and transparency of information disclosure. First of all, enterprises need to change from passive compulsory disclosure to active voluntary disclosure, which means that not only should they meet the basic compliance requirements, but also disclose the operating conditions, development dynamics and potential risks

of enterprises in a comprehensive and multi-angle way. Secondly, enterprises should establish a strict internal control mechanism for information disclosure, set up special departments and supervisory agencies to ensure the professionalism and legality of the disclosure content, and consider hiring professionals familiar with international rules. Finally, information disclosure should be detailed, accurate, and easy for investors to understand. At the same time, the specific characteristics and market environment of enterprises should be considered to avoid misunderstanding caused due to opaque information transparency. Through these measures, enterprises can better meet the needs of investors and enhance market trust.

4.3. Quick Response to the Relevant Information Disclosure Content of Enterprises

Companies tend to fall sharply in the face of short reports issued by short sellers. In this case, companies can first consider an emergency suspension to gain time to respond. However, a more effective strategy is to respond quickly and accurately to short reports in order to restore investor confidence. Companies can respond by issuing clarification announcements, holding media or conference calls. The key is to provide timely, truthful and truthful information to avoid misleading investors. In order to enhance the credibility of the response, the enterprise needs to do the following: first, the response must be prompt to show the transparency and responsibility of the enterprise; second, the clarification should be detailed and specific, providing quantitative data and direct evidence, such as photos and document scanning to enhance persuasion; third, the report should be clear and avoid ambiguity or irrelevant questions; finally, the actual situation of the enterprise should be compared with the accusations of the short agency, intuitively show the evidence, so as to win the trust of investors.

5. RESEARCH CONCLUSIONS

The paper concludes that Anta Sports has successfully counter Muddy Waters' short selling with emergency suspension, clarification announcements and performance reports, actions that not only confirmed the authenticity and integrity of its financial information, but also enhanced investor confidence and gained broad support. Still, Anta still has room to improve the integrity and transparency of information disclosure, which is closely related to its corporate governance structure. Based on the shares of crisis management theory, this article provides a comprehensive counter short strategy, including prevention, response and repair advice, such as familiar with market rules, strengthen corporate governance, improve the quality of information disclosure, hire authority audit, establish public opinion monitoring mechanism, and quick response in a crisis, big shareholders overweight or buy back shares, joint forces, etc. These strategies can help enterprises to prevent and respond to the short crisis more effectively and achieve the crisis transformation.

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