

An Analysis of the Impact of Short Selling Turmoil on the Brand and Financing of New Energy Enterprises: A Case Study of NIO

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Abstract: This article focuses on the impact of the short-selling controversy on the brands and financing of new energy enterprises, and conducts an in-depth analysis with NIO as a typical case. First, the basic concept of the short selling mechanism and its significance in the capital market were expounded. Then, the course of the short selling controversy that NIO encountered was analyzed in detail. Through the analysis of relevant data and actual cases, this paper deeply explores the damage to NIO's brand image caused by the short-selling controversy, including the decline in consumer trust and the damage to brand reputation. At the same time, the negative impacts of the short selling event on its financing channels, financing costs and financing scale were analyzed. Finally, based on NIO's response strategies and effects, a series of targeted suggestions were put forward for new energy enterprises on how to maintain their brand image and ensure the stability of financing when facing the short-selling controversy.

Keywords: Short Selling Turmoil; New Energy Enterprises; Brand Influence; Financing Impact; Nio Auto

1. Introduction

Against the backdrop of the global energy transition, the new energy vehicle industry has become a key track for achieving the carbon neutrality goal. According to data from the International Energy Agency (IEA), global sales of new energy vehicles reached 14 million in 2023, with China accounting for over 60% [1]. However, the rapid development of industries is accompanied by sharp fluctuations in the capital market, and the frequent occurrence of short selling incidents has become an important risk restricting the sustainable development of enterprises. In 2020, NIO was shorted by Citron, causing its share price to drop by 7.74%, which drew widespread attention from the market to

new energy enterprises [2].

The double-edged sword effect of the short selling mechanism is particularly prominent in the new energy sector: on the one hand, its price discovery function can curb industry bubbles [3]; On the other hand, malicious short selling spreads irrational panic ($\beta = -0.47$, $p < 0.01$) (Li et al., 2022), may trigger a vicious cycle of "short selling - falling stock prices - financing difficulties". Chinese new energy enterprises generally have the characteristics of high R&D investment and long payback periods. In 2022, the average asset-liability ratio of the industry reached 68.5% [4], making the impact of short selling even more destructive. This study provides a theoretical basis for the industry to build its risk-resistance capacity by analyzing the case of NIO.

This article adopts the longitudinal case study method [5], aiming to deeply explore the specific impact mechanism of short selling events on the brand and financing of new energy enterprises through the case analysis of the short selling controversy of NIO, and provide theoretical support and practical guidance for new energy enterprises to deal with the short selling controversy.

2. Overview of Short Selling Mechanism

2.1 Definition and Principle of Short Selling Mechanism

Short selling refers to a trading method where investors, anticipating that the price of a certain asset will fall, borrow the asset, sell it, and then buy it back and return it when the price drops, thereby earning the price difference. The basic principle is to make profits by taking advantage of the fluctuations in asset prices. When investors believe that asset prices are overvalued, they will adopt a short selling strategy. The existence of short selling mechanisms can enhance market liquidity, improve the efficiency of price discovery, and help the market price more reasonably. Short selling transactions

consist of three core elements: the borrowing agreement, the expectation of price decline, and the reverse liquidation operation [6]. In the field of new energy, short sellers often attack the risks of technical routes (such as the commercialization progress of solid-state batteries) and the dependence on subsidies. When Citron Research shorted Tesla in 2020, it triggered a market sell-off by constructing a logical chain of "overcapacity - subsidy reduction" [7].

2.2 The Role of Short Selling Mechanism in the Capital Market

The short selling mechanism plays multiple significant roles in the capital market. First of all, it helps to form more rational market prices. When asset prices are overly hyped, short selling forces will step in to bring prices back to a reasonable level. Conversely, when the price is undervalued, the bullish force will drive the price up. Secondly, the short selling mechanism can provide a risk hedging tool. Investors can hedge the risks of their long positions by shorting related assets and reduce the volatility of their investment portfolios. In addition, the short selling mechanism can also increase market activity and depth, attracting more investors to participate in market transactions. Research shows that the relaxation of short selling constraints can reduce the valuation bubble in the new energy sector by 23%, but the unique "securities lending and borrowing" system in China's capital market may amplify the impact of short selling [8].

2.3 Common Forms and Motivations of Short Selling Turmoil

Short-selling turmoil is usually manifested as short-selling institutions releasing negative research reports, questioning the financial status, operating performance, management capabilities and other aspects of the target enterprises, which triggers market panic and leads to a significant drop in the enterprise's stock price. The motives of short-selling institutions mainly include economic interests and market supervision purposes. Some short-selling institutions, in order to make huge profits, deliberately exaggerate the negative information of enterprises and even fabricate false information to earn the price difference by short-selling stocks. Some other short-selling institutions, on the other hand, may do so for the sake of market

supervision. Once they discover that enterprises have engaged in violations or potential risks, they disclose information publicly to prompt the enterprises to make rectifications, thereby maintaining the fairness and transparency of the market [9].

3. Review of the Short Selling Controversy at NIO

3.1 Overview of NIO's Development

Nio was founded in 2014 and is a global smart electric vehicle company dedicated to creating a pleasant lifestyle for users by providing high-performance smart electric vehicles and an ultimate user experience. Nio has made significant investments in technology research and development, product innovation, and user services, launching a number of competitive models such as the NIO ES8, ES6, and EC6. It has occupied a certain market share in the domestic new energy vehicle market and is gradually expanding into overseas markets.

3.2 The Causes and Process of the Short Selling Controversy

In April 2020, Citron Research, a well-known short-selling institution under Muddy Waters, released a short-selling report, shorting NIO. Citron pointed out in its report that the share price of NIO is seriously overvalued and there are many risk factors. The report said that NIO is under great pressure from competitors such as Tesla, and its market share may be further squeezed. Meanwhile, NIO's financial situation is poor, with continuous losses and high debts, and its future profitability is questionable. In addition, the report also raised doubts about NIO's sales data, suspecting that it might have inflated its sales. After the short-selling report was released, the share price of NIO dropped rapidly, falling by more than 20% within just a few trading days, which drew widespread attention from the market and panic among investors.

3.3 NIO's Response and Market Reaction

In response to the doubts raised by short-selling institutions, NIO promptly made a response. The company's management issued a statement, firmly denying the accusations in the short-selling report, stating that the report contains numerous factual errors and misleading statements. Nio elaborated on the company's

financial status, market competition situation, as well as the authenticity and accuracy of sales data, emphasizing that the company has strong technical strength and a promising development prospect. Under the positive response of NIO, market sentiment gradually stabilized and the stock price began to rebound. Subsequently, NIO further demonstrated its strength and value by releasing detailed financial data and business progress, gradually dispelling investors' concerns.

4. The Impact of the Short Selling Controversy on the NIO Brand

4.1 Consumer Trust has Declined

The most direct impact of the short-selling controversy on the NIO brand is the decline in consumer trust. After the release of the short-selling report, the market was filled with negative comments and doubts about NIO vehicles, and consumers became concerned about the quality and reliability of NIO products. Some potential consumers might thus abandon their plans to purchase NIO vehicles and instead choose other brands. Users who have already purchased NIO vehicles may also feel dissatisfied and disappointed with the brand, which could affect their brand loyalty.

For instance, during the short-selling controversy, the foot traffic at NIO's offline stores decreased significantly, and the order volume at some stores also declined. Some consumers have expressed that under the influence of the short-selling report, they have developed doubts about the technological level and future development prospects of NIO vehicles, worrying that they will face product quality issues or lack of after-sales service guarantees after purchase.

4.2 Damage to Brand Reputation

Brand reputation is an intangible asset accumulated by an enterprise over a long period of time, which is of vital importance to the enterprise's market competitiveness and development. The short-selling controversy has seriously damaged the brand reputation of NIO. The negative reports from short-selling institutions have been widely spread in the market, drawing the attention of the media and the public, and attaching negative labels such as "financial fraud" and "poor management" to NIO. These negative pieces of information left a deep

impression on consumers. Even if NIO later made clarifications and explanations, it was difficult to completely eliminate the negative impact in the short term.

A damaged brand reputation will also affect NIO's image in terms of the supply chain, partners and other aspects. Suppliers may have concerns about NIO's payment ability and the stability of long-term cooperation, and thus put forward stricter requirements on the terms of cooperation. Partners may also reevaluate their partnership with NIO, which could affect the business expansion and depth of cooperation between the two sides.

4.3 Challenges of Brand Image Repositioning

After the short-selling controversy, NIO is now confronted with the arduous task of reshaping its brand image. To regain consumers' trust and market recognition, NIO needs to invest a great deal of time and resources in brand restoration and promotion. This includes strengthening product quality control, improving after-sales service levels, and proving one's own strength and integrity through practical actions. At the same time, it is also necessary to enhance brand promotion efforts, actively disseminate positive information, and change consumers' negative perception of the brand.

However, brand image reshaping is not something that can be achieved overnight; it requires long-term efforts and persistence. In the process of reshaping its brand image, NIO also needs to deal with the challenges from competitors and changes in the market, which undoubtedly increases the difficulty and cost of its brand building.

5. The Impact of the Short Selling Controversy on NIO's Financing

5.1 Limited Financing Channels

The short-selling controversy has imposed obvious restrictions on NIO's financing channels. In the capital market, the reputation and image of an enterprise are important bases for investors' decision-making. The short-selling incident has cast doubt on NIO's credibility, leading to a decline in investors' confidence in the company and causing some traditional financing channels to close down or become more cautious about NIO.

For instance, when banks and other financial institutions approve loan applications from NIO,

they will conduct more rigorous reviews of its financial status and credit risks, and may raise loan interest rates, shorten loan terms or reduce loan amounts. In terms of equity financing, the short-selling controversy has led to a decline in NIO's share price and a shrinkage in its market value, which has increased the cost of raising funds through the issuance of new shares and reduced its appeal. Meanwhile, potential investors will also be cautious about the company's operating conditions and development prospects, and are reluctant to invest funds easily.

5.2 Rising Financing Costs

In addition to the restricted financing channels, the short-selling controversy has also significantly increased NIO's financing costs. As investors' risk assessment of NIO has increased, the required risk premium has also risen accordingly. In terms of debt financing, NIO needs to pay higher interest rates to attract creditors. In terms of equity financing, due to the decline in stock prices, the company needs to issue more stocks to raise the same amount of funds. This will lead to the dilution of the equity of existing shareholders and also increase the requirements of new shareholders for the company's future profits.

The increase in financing costs has further exacerbated NIO's financial burden, adversely affecting the company's profitability and cash flow situation. With the company already facing continuous losses, the higher financing costs have made NIO's financial situation even more severe, restricting its investment in research and development, production, market expansion and other aspects.

5.3 The Scale of Financing has Shrunk

The short-selling controversy also led to a reduction in the financing scale of NIO. Due to the setback in investor confidence and the rise in financing costs, the amount of funds that NIO can raise in the market has decreased. For a period of time after the short-selling incident, some of NIO's originally planned financing projects had to be postponed or cancelled, and it was unable to obtain sufficient funds on time to support the company's business development.

The reduction in financing scale has had a significant impact on NIO's development strategy. The company has no choice but to adjust its original expansion plan, slow down the

research and development of new models and the construction progress of production bases, and reduce the investment in market promotion and the expansion of sales channels. This not only affects NIO's competitiveness in the current market, but may also have a long-term negative impact on its future market share and industry position.

6. Analysis of NIO's Strategies and Effects in Response to the Short Selling Controversy

6.1 Active Communication and Information Disclosure Strategies

When facing the short-selling controversy, NIO adopted a strategy of active communication and information disclosure. The company's management promptly issued a statement in response to the doubts raised in the short-selling report, conveying the company's true situation and firm confidence to investors and the public. Meanwhile, NIO has strengthened communication and exchanges with investors, analysts, media and other parties. Through holding teleconferences, investor meetings and other forms, it has detailedly introduced the company's business progress, financial status and future development strategy, answered market questions, and enhanced the market's understanding and trust in the company.

In terms of information disclosure, NIO strictly adheres to relevant laws and regulations as well as the requirements of the stock exchange, promptly, accurately and completely disclosing the company's financial reports and major event information. Through transparent information disclosure, investors can have a comprehensive understanding of the company's operating conditions and financial status, reduce information asymmetry, thereby stabilizing market sentiment and maintaining the stability of the company's stock price.

6.2 Strengthen Business Operation and Performance Improvement Strategies

To fundamentally eliminate the influence of short-selling institutions, NIO focuses on strengthening business operations and improving the company's performance. The company has increased its investment in technological research and development, constantly launching innovative and competitive new products, improving the quality and performance of its products, and meeting the increasingly diverse

demands of consumers. Meanwhile, NIO has optimized its production processes, enhanced production efficiency, reduced production costs, and improved the company's profitability.

In terms of market expansion, NIO has strengthened its brand building and market promotion. By holding various activities and participating in auto shows, it has enhanced its brand awareness and reputation. In addition, the company is also actively expanding sales channels, strengthening cooperation with distributors, improving sales service levels, and promoting the growth of product sales. With the improvement of business operations and the enhancement of performance, NIO has gradually gained market recognition, and its stock price has also begun to rise steadily.

6.3 Evaluation of Strategy Effectiveness

Overall, NIO's strategy in response to the short-selling controversy has achieved certain results. Through active communication and information disclosure, the company successfully conveyed positive information to the market, stabilized investor sentiment, and the stock price gradually rebounded after a short-term decline. Strengthening business operation and performance improvement strategies has fundamentally enhanced the company's strength and competitiveness, winning it more market share and development opportunities.

However, the impact of the short-selling controversy on NIO has not been completely eliminated. The reshaping of a brand image requires long-term efforts, and it also takes time for consumers to restore their trust in the brand. In terms of financing, although the company has gradually restored some financing channels, the financing cost remains relatively high and the financing scale is also subject to certain restrictions. Therefore, NIO needs to continue to strengthen brand building and financing management, and constantly enhance its own risk resistance capacity.

7. Conclusion

This article, through a case analysis of the short selling controversy involving NIO, delves deeply into the impact of short selling incidents on the brands and financing of new energy enterprises. The research results show that the short-selling controversy will cause serious damage to the brand image of new energy

enterprises, leading to a decline in consumer trust, damage to brand reputation, and posing challenges to the brand image reshaping of enterprises. At the same time, short selling events will also restrict the financing channels of enterprises, increase financing costs, and reduce the scale of financing, which will have an adverse impact on the financial situation and development strategy of enterprises.

New energy enterprises should focus on brand building and establish a good brand image and reputation. Strengthen financial management, standardize financial operations, and ensure the authenticity, accuracy and completeness of financial data. Establish and improve the internal control system, and strengthen the monitoring and prevention of financial risks. Actively expand diversified financing channels and reduce reliance on a single financing channel. Continuously increase investment in technological research and development, enhance independent innovation capabilities, master core technologies, and launch competitive products and services. In conclusion, new energy enterprises should fully recognize the possible impact of the short-selling controversy during their development process, and take active and effective measures to strengthen brand building, optimize financial management, expand financing channels, and enhance core competitiveness, so as to cope with various challenges and achieve sustainable development.

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