

A Study on the Motivation and Effect of X Company's Backdoor Listing

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Abstract: In recent years, with the development and progress of China's economy, China's securities market has gradually improved. A large number of Chinese probability stocks that could not be listed in China but chose to be listed overseas for various reasons have chosen to return. On the one hand, due to the resistance to the overseas development of China General Shares and the differences in national conditions, culture, economic development levels and development models, overseas investors are not optimistic about China General Shares; On the other hand, most of the Chinese stocks are Internet and information companies, which are relatively rare among A-share listed companies, and investors are more eager for high-quality targets, which also leads to the P/E ratio of this field being much higher than that of enterprises in related industries of the US stocks. Therefore, many Chinese stock companies have begun to plan to return to the domestic Chinese securities market. After returning to China, it is worthwhile to conduct in-depth research on the way of listing, the effect after listing, and the market reaction of China Concept Shares. This paper mainly summarizes and analyzes the motivation, privatization process and backdoor listing plan of X Company by consulting relevant materials of X Company and the analysis of the current situation of China Concept Shares, and studies the effect of backdoor listing of X Company through the comparative analysis of accounting indicators before and after backdoor listing and the analysis of market reaction, and then analyzes and evaluates the whole process of backdoor listing of X Company, And in view of the problems found in the research process in the process of backdoor listing and after backdoor listing, put forward suggestions to X Company and others.

1. Introduction

First of all, Company X announced that it had received an offer for privatization from the investment group led by Y. In December of the same year, the privatization agreement was signed, and finally Y et al. acquired all the common shares except the shares they held at a price of 51.33 dollars per share. The privatization plan was adopted at the subsequent shareholders' meeting. This marks that X Company has officially started its delisting process. Then, the privatization project of X Company was approved by the NDRC. Through multi coordination, the resistance encountered in the privatization process of X Company has been resolved. In July of the next year, Company X

announced that all privatization transactions had ended, and the stock was successfully delisted from the United States. After that, the actual business will be split and restructured, the equity structure will be adjusted, and the foreign exchange registration will be cancelled^[4]. Finally, J Company Elevator Co., Ltd. announced that it would carry out a major asset restructuring transaction five months after issuing the suspension announcement. The other party to the restructuring transaction is X Company. So far, the shell resource of X Company's backdoor listing has been determined as J Company, which has made great progress in the process of A-share listing.

The backdoor listing consists of three stages of transactions: acquisition of control, asset purchase and asset purchase. The process is as follows^[7].

To ensure "clean shell", shell companies will integrate internal assets. Company J first reorganizes and consolidates its assets. Company J only retains the subsidiary of Company D. First, all assets and liabilities are transferred to Company D through transfer. Company D is 100% controlled by Company J and is its wholly-owned subsidiary^[2].

The shell company disposes the assets. Company J transferred 100% of the equity of Company D at a price of RMB 1.872 billion. This transfer is planned to be made in two ways: cash and asset replacement. The actual controller of Company J purchased 90.29% [] shares of Company D in cash of RMB 1690000000.

Purchase assets through major asset replacement and issuance of shares. Put the assets of Company X into Company J. Company D exchanged shares with Company X, that is, 9.71% of its shares were exchanged with 0.36% of Company X. After the exchange, X Company will transfer the converted shares to the actual controller of J Company. Company J purchased the balance of this asset replacement from the shareholders of Company X in the form of private placement. The amount of private placement was 50.235 billion yuan, and the price of private placement was 7.89 yuan/share, totaling 6.367 billion shares^[1].

After the completion of backdoor listing, Y became the actual controller of the listed company. After making performance commitments, X Company held a bell ringing ceremony in Shanghai and officially listed in A-shares.

2. Analysis on the Motivation of X Company's Backdoor Listing

2.1 Investors do not agree with its profit model

As a leading enterprise in the domestic Internet security industry, X Company's gross operating income has increased continuously according to its annual financial report, which is higher than Baidu and Sohu, which are also leading companies in the industry. However, this was not the case in the market. While other Internet stocks continued to grow, X Company's share price continued to fall. Although the annual financial report and semi annual financial report of X Company are very excellent, American investors do not pay for them. The Dow Jones Industrial Index and NASDAQ Index, the representative indexes of the United States in the same period, rose steadily. Compared with them, the decline of X Company is out of place.

One of the reasons for the poor performance of X Company's share price in the United States is that foreign investors cannot understand X Company's operating profit model. Company X was the first Internet company to do free anti-virus software, and then carried out a series of software for enhanced services. Adhering to the principle of "service first, meet customer requirements", X Company has launched a series of free software. After occupying the market, X Company began to provide value-added services. With the huge population dividend in China and the rapid popularization of computers in China, the performance of X Company has risen rapidly, and more than 60% of its operating income comes from advertising services. However, American investors do not understand this model. They believe that the number of software downloads and users can be

falsified. They believe that this model cannot maintain a high return on assets for a long time. Therefore, American investors do not pay for the stock of X Company, and the stock price has been at a very low level. Since the listing of X Company, the P/E ratio reflecting the valuation level has continued to decline, far below the industry average.

2.2 Meet the Company's own financing needs

After listing on the New York Stock Exchange, Company X has been bearing heavy debt interest. During this period, the asset liability ratio of X Company increased gradually, indicating that its liabilities increased year by year. The current ratio of Company X has decreased from 0.9 to 0.71, which has been lower than the industry average. This shows that its current assets have covered its current liabilities, and its capital flow is gradually short. Judging from the proportion of current liabilities in total liabilities, most of X Company's liabilities are current liabilities. The proportion of accounts receivable has increased year by year, which indicates that there is a certain pressure on the capital flow of X Company. As a result, Company X is under great pressure to repay its debts, and its achievements in the US stock listing fail to reflect the company's value and meet the company's financing needs.

At the same time, X Company is also restructuring its business system and making strategic transformation. It is difficult to meet the needs of its strategic transformation with its existing capital flow. In the face of fierce competition in the Internet industry and extremely fast upgrading speed, Company X's position is constantly threatened, and it is difficult to maintain the recognition of the capital market. The PC side demographic dividend cultivated by X Company through a series of security software has been gradually reduced, and the actual number of users of PC side products and services has been increasing more slowly. In the field of Internet security and Internet search, SOHO, Tencent, Baidu and other companies with strong competitiveness are gradually developing related businesses. And because its security software and browser based on individual users are free, they cannot bring large amounts of income to enterprises. Therefore, X Company has explored three strategic transformation directions based on its own advantages. One is the direction of enterprise network security. X Company began to increase its investment in enterprise network security, hoping to bring higher economic benefits to the enterprise itself through exploration in related fields. X Company has successively released three enterprise security products to provide enterprises with network security related services, which are highly praised. The second is hardware. Company X focuses on smart phones and smart hardware. Through cooperation with leading mobile phone brands in China, it has independently established a company focusing on mobile phone research and development and manufacturing. At the same time, it has also released a series of high-tech hardware products such as routers, children's watches, and tachographs. Third, Internet value-added services. X Company is not satisfied with the traditional business field, and actively explores new business fields. X Company has released relevant value-added services for medical, film, mobile games and other popular fields.

Company X needs more capital to support its development if it wants to develop new businesses. From the perspective of the capital flow before its backdoor listing, it is difficult to meet the capital needs of its business system restructuring and strategic transformation. The enterprise hopes to obtain more capital support through its A-share listing, and its financing needs are large.

2.3 Fast backdoor listing

In China, the traditional way of listing is IPO (initial public offering). The time cost of IPO listing is very high. It takes about one to three years from planning to completion. The capital cost of backdoor listing is much higher than that of IPO. Backdoor listing involves shell purchase cost,

benefit transfer cost, asset integration cost, etc. However, compared with IPO listing, backdoor listing can greatly reduce the time cost of enterprises and enable them to go public quickly. Company X has spent a long time and quite high time cost in the process of removing VIE delisting. It will take another two years to go public through IPO. Therefore, backdoor listing is a better choice for Company X^[9].

3. Analysis on the Effect of X Company's Backdoor Listing

This section mainly analyzes and evaluates the financial effects of X Company after its backdoor listing from two aspects: basic financial data analysis and financial indicator analysis. The basic financial data analysis mainly analyzes the operation and assets of X Company^[6]. The financial indicator analysis mainly adopts the financial indicator analysis method to analyze the long-term performance of X Company after its backdoor listing, mainly from three perspectives of solvency, operating capacity and profitability^[3].

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The solvency has been improved, mainly through the analysis of the asset liability ratio indicators of Company X to analyze its long-term solvency. Before the backdoor listing, the asset liability ratio of X Company has been stable at about 54%, without significant growth and decline. During the backdoor listing, the removal of VIEs and privatization led to the reduction of X Company's asset level and the increase of its liability level, leading to the increase of its asset liability ratio. After that, it increased the capital of Company X. As a result, the asset liability ratio of Company X decreased, which was lower than the industry average. After the backdoor listing of X Company, the asset liability ratio has declined and remained below the industry average. Therefore, the backdoor listing of X Company broadens its financing channels and makes the company's capital more abundant. More capital can be used for the company's own development. This backdoor listing has improved X Company's short-term and long-term solvency.

The operating capacity has improved to some extent^[8]. First, the turnover rate of accounts receivable is low. The turnover rate of accounts receivable mainly reflects the indicator of the turnover rate of accounts receivable of enterprises, which is positively related to the operating capacity of enterprises. The turnover rate of accounts receivable is at a high level, which can, to a certain extent, indicate that the enterprise's collection expense is low, the operating cost is low, and the operating level is high. After the successful backdoor listing of X Company, there was a small decline compared with that before the backdoor listing. Combined with the analysis of the Company's financial statements, it can be seen that the growth rate of accounts receivable was higher than the growth rate of operating income. The turnover rate of accounts receivable of Company X is lower than the average value of the industry, which indicates that the liquidation time of accounts receivable is long and the efficiency of capital use is not high. If the turnover rate of accounts receivable is at a low level for a long time, it is very unfavorable to the production and operation of the enterprise. Company X needs to pay attention to the capital recovery of the company and improve the turnover level of accounts receivable in the process of company operation. The turnover rate of accounts receivable of Company X is lower than the average value of the industry, which indicates that the liquidation time of accounts receivable is long and the efficiency of capital use is not high. If the turnover rate of accounts receivable is at a low level for a

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Second, the turnover rate of total assets decreased. The total asset turnover rate is used to measure the ratio between the enterprise's asset investment scale and sales level. The higher the total asset turnover index is, the higher the sales level and asset investment level of the enterprise are. After backdoor listing, the turnover rate of total assets declined, and the growth rate of its asset scale exceeded its sales level.

Third, the profitability has been improved. After the backdoor listing, the gross profit margin of X Company has been improved. The gross profit margin of X Company has always been at a high level, which is mainly because X Company has established a good brand image by providing comprehensive and high-quality Internet security and mobile security products, gathered a large number of high-quality customers, and the commercial value generated by user resources is constantly reflected. At the same time, X Company has had an obvious scale effect after years of operation, so the gross profit margin remains at a high level^[5].

4. Suggestions and enlightenment of X Company's backdoor listing

4.1 Focus on loss making business

Thanks to the growth of its Internet advertising and service revenue, X Company's operating revenue in the first half of the year increased by 24.16% year on year, and the net profit attributable to shareholders of the listed company after deducting non recurring profits and losses was 1.39 billion yuan, up 39.70% year on year. This data makes the semi annual report of X Company very bright, but at the same time, it is worth paying attention to the continuous loss of X Company's mobile terminal business. For the mobile phone business, financial business, overseas security desktop business and other businesses with poor operating conditions, Company X needs to make up the costs invested for them through financing or through the profits of profitable businesses. X Company is also in the Internet industry with rapid upgrading and harsh living conditions. The existence of these bad businesses is not conducive to the development of the enterprise. Company X should pay more attention to these businesses and appropriately adjust its business strategy and planning.

4.2 Reduce P / E ratio (foam)

After the reorganization and listing of X Company and J Company, the maximum market value was 449.806 billion yuan, and the maximum P/E ratio was 133.39 times. At present, the average P/E ratio of Shanghai Stock Exchange is 16.6 times, the average P/E ratio of GEM is 40.4 times, and the P/E ratio of leading companies is 47.2 times. However, the net profit level of X Company is lower than that of industry leaders. It can be seen that the price earnings ratio of company X has a large foam. The high P/E ratio is worthy of vigilance of X Company. Company X should find a reasonable way to further reduce the price earnings ratio foam and reasonable valuation, so as to make the company have better performance in the capital market and win the favor of many investors, and avoid the stock price plummeting due to the mismatch between performance and valuation, which makes investors lose confidence in the company.

4.3 Design a backdoor scheme suitable for itself

One of the success factors of X Company's backdoor listing is that it has chosen a high-quality

shell company suitable for itself and designed a reasonable trading scheme. When selecting shell companies, enterprises should do a good job of due diligence, carefully select shell companies, and strive to play a synergistic effect after asset restructuring to enhance enterprise strength. Generally, a high-quality shell company should have a small share capital and market value, no too many liabilities and non-performing assets, no legal disputes and pending litigation, a relatively concentrated equity, and strong shareholders' willingness to trade and reasonable appeals. In addition, we should also consider the differences between the industries of the two sides and the subsequent integration issues^[10].

5. Authors' Contributions

Through analysis, it is suggested that there are many transaction modes for backdoor listing, and enterprises need to choose the transaction mode suitable for both parties according to their business conditions, asset conditions and other aspects. In case of insufficient funds of the backer, the consideration can be paid by means of private placement to avoid greater pressure on the capital flow of the enterprise by cash payment. When determining the transaction plan, both parties need to take into account the interests and needs of both parties to achieve fairness and justice, so that the backdoor transaction can be carried out smoothly.

6. Conclusion

First, Company X has made adequate preparations before backdoor listing. Backdoor X Company is a leading enterprise in the industry, with a wide business scope, large scale and strong strength. Company X finally selected Company J through repeated investigation and in-depth background investigation of shell company, including the initial establishment of the company, the company's operating mode, and the company's listing and financing. Company J has a simple equity structure, a serious decline in business performance, a low market value, and a long-term low stock price, which is more suitable as a shell company. The process of X Company's delisting from the United States, dismantling the VIE structure and adjusting the equity structure in the early stage was relatively smooth due to the relatively complete preparation. Company X was able to successfully delist from the United States and successfully backdoor listed in A shares, thanks to its sufficient and perfect preparation in the early stage.

Second, from the perspective of financial data, X Company's backdoor listing is relatively successful. The backdoor listing has brought about a substantial increase in the stock price in the short term, which has brought a very huge wealth effect to X Company. The high valuation appreciation of the injected assets is an intangible benefit obtained in the process of restructuring. The additional shares subscribed by major shareholders in the process of listing generate an excess premium after listing, which also greatly increases the wealth of shareholders. From the perspective of shell companies, shell companies can get a lot of capital gains after selling shells, and avoid being ordered to delist. In terms of long-term financial performance, the study found that X Company's financial performance score before and after the backdoor listing showed a continuous growth trend, and its financial performance increased steadily. The backdoor listing has brought positive changes to its long-term performance.

Third, rapid financing channels ensure the smooth progress of privatization. One of the most important aspects of such a huge privatization acquisition case is the support of funds. Through its own channels, it attracts more powerful investors to participate in the privatization project. It is precisely because of the protection of these investment groups that X Company can delist smoothly. Because of the capital problem, the shorter the privatization time is, the better for enterprises and investment groups. Company X also realized this and hyped the topic in advance to enhance its

popularity, which attracted more investors and stimulated the original investors, so as to promote the funds to be received in a short period of time and ensure the promotion of privatization projects.

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