

Analysis on the Motivation of Express Enterprises Backdoor Listing and the Road Choice

Based on the Case Analysis of SF Company Taking over Ding Tai New Material Company

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Abstract—With the development of economic globalization and the development of China's capital market, more and more enterprises are aware of the importance of listing. Leveraging e-commerce booming, China's express delivery industry is also to achieve a big leap, big development, but also some trade issues. Beginning in 2016, Shunfeng, Yuantong, Zhongtong and other courier companies have started the operation of the listing, after that, SF and Yuantong achieved the listing through the backdoor. This article use the case of Shun Feng backdoor listing, specifically analyze the financing incentives, Control motivation and market timing motivation in China's express delivery business , as well as the reasons why major courier companies have chosen backdoor way.

Key words—*financing; control; market timing; IPO*

I. INTRODUCTION

Leveraging the explosive growth in e-commerce, China's express industry developed for several decades. From 1993, China's first courier company set up, to 2015, statistics show that China's registered courier companies more than 30,000. Except the "Four Tong and One Da", SF and some other large express delivery companies, the rest is all small and medium-sized courier companies. Sprung up in many small courier companies seriously aggravated the competition in the industry. These small courier company is in small-scale, low management level, poor quality of service and seriously business homogenization, resulting in that they compete mainly on price. It compresses the industry profits, and industry development prospects are not optimistic. As market competition continues to increase, many businesses wiped out in this ruthless big waves. In order to seek new development path and look for breakthroughs in the industry, several major courier companies have started the operation of listing. December 13, 2015, Shen Tong Express reverse merged Zhejiang IDC Fluid Control Co., Ltd. to achieve the listing. May 23, 2016, SF Express achieved backdoor listing of Din Tai new material. October 20, 2016, Yuantong Express achieved backdoor listing with Dalian DaYang Trands Co., Ltd. October 28, 2016, ZTO Express officially landed on the New York Stock Exchange. Such a large scale of listing bears exactly what motivation behind? February 24, 2017, Ding Tai new material has achieved limit up for six days after he officially renamed as Shunfeng. What does this mean for the future development of China's express delivery

industry? Based on the analysis of the current situation and case study of SF express backdoor listing, trying to find out the inner motivation of express company in the capital market, and put forward suggestions for the future development of China's express delivery industry.

II. JOURNALS REVIEWED

At present, the research on the motivation of listed companies has been more abundant, most studies focus on the reasons for the overall listing of enterprises. In the past ten years, there are 33 articles which have been discussed on this. For example, Yang Hongfen (2011) analyzed the internal motivation of the overall listing of state-owned enterprise group from the perspective of internal capital market theory and enterprise boundary theory [1], and Lin Bin (2008) studied the reasons for the overall listing of listed companies through a typical case, and empirically analyzed the listing effect [2]. At the same time, there are 23 literatures on the motivation of cross listing, for example, Zou Ying (2009) analyzed financial incentives in Chinese cross listed companies [3], Ding Lan, Dong Xiuliang (2010) empirically analyzed 120 H-share company listed on the main board of Hongkong, and got the the internal driving force of foreign listed companies returning to A shares market [4]. There are a lot of discussion about the motivation of listing in foreign language literature, such as K.B. Binh, BU Chong, K.S. Eom (2010) through the empirical analysis of the causes of cross listing companies [5]. As for the theme of backdoor listing, there are 27 articles in the past ten years, such as Peng Xiaojie (2011) analyzed the situation and drivers of China's private enterprises backdoor listing [6].

Because of its excellent performance in recent years, the courier industry has greatly promoted the development of e-commerce and the national economy. Although many scholars have done a lot of research on it, most of the research is focused on the service quality and development of express industry. Zhou Xiaoli (2012) discussed the outstanding problems of express delivery industry in the environment of rapid development of e-commerce, and analyzed the experience of the development of the world's top four express giants in China. He deeply explored the six major development measures of China's express delivery companies, such as "blue ocean" [7]. He Liu (2013) started from the perspective of perceived service quality, discussed

the consumer satisfaction for the express service industry brand in the B2B2C environment [8]. Yuan Jie (2015) started from the problems existing in the logistics services under the B2C e-commerce and put forward the relevant strategies combined with the relevant concepts [9]. Wang Baoyi (2016) analyzed the regional differences and dynamic evolution of express industry [10]. Similarly, foreign scholars have also expressed concern about the quality of service in China's express delivery industry, such as Jun Zhuo, June Wei, Lai C. Liu, Kai S. Koong, Shengtao Miao, etc..

Throughout the literature, there are few studies on the issue of the listed companies' capital operation in the express industry and the case analysis. Sun Chunpu (2013) analyzed the reasons for the enterprise backdoor listing and trading patterns with the example of Henan Dayou Energy Co., Ltd backdoor Nanjing Xinwang Tech Co., Ltd [11]. Especially in the new situation of China's current listing regulation, the companies' listing road and the development of the listed companies need to be analyzed and studied.

III. THE STATUS QUO AND PROBLEMS OF CHINA'S EXPRESS DELIVERY INDUSTRY

A. The Rapid Development of Express Industry

As it can be seen from "Table I", either the courier business volume or business income during the study period showed an upward trend, especially after 2010, the increase was significantly increased.

TABLE I. EXPRESS INDUSTRY BUSINESS DATA SHEET

	2007	2008	2009	2010	2011
Express (billion)	12	15.1	18.6	20.8	36.7
growth rate(%)		25.83%	23.18%	11.83%	76.44%
Express business income (billion)	342.6	408.4	479	515.9	758
growth rate(%)		19.21%	17.29%	7.70%	46.93%
	2012	2013	2014	2015	2016
Express (billion)	56.90	91.90	139.60	206.70	312.80
growth rate(%)	55.04%	61.51%	51.90%	48.07%	51.33%
Express business income (billion)	1055.3	1441.7	2045.4	2769.6	3974.4
growth rate(%)	39.22%	36.62%	41.87%	35.41%	43.50%

But interestingly, while the volume of business and business revenue rose, the average unit price of express delivery business has continued to decline, especially after 2010, the magnitude of the decline is significantly increased "Fig. 1" and "Fig. 2".

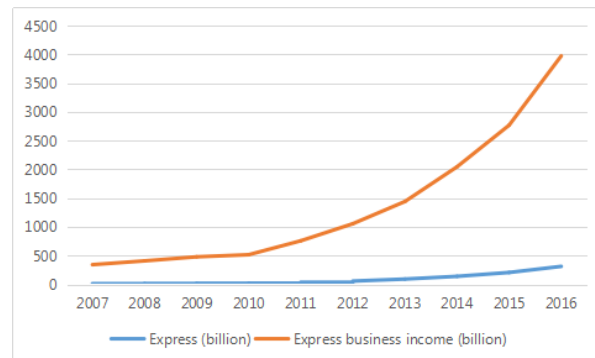


Fig. 1. Curve: Express volume and revenue.

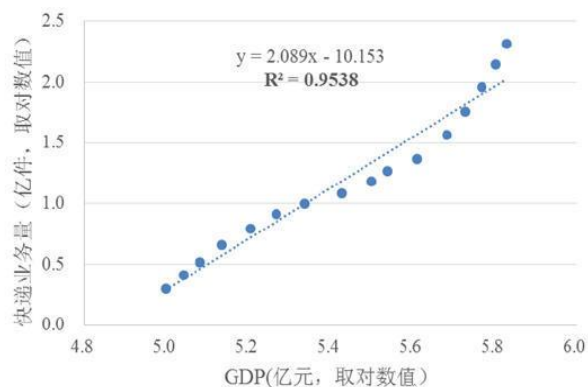


Fig. 2. Express business volume and GDP diagram. (Source: China Industrial Information Network)

The rapid development in Express industry after 2010 mainly benefit from the new postal law promulgated in 2009, April, with the support of national policy to achieve a great prosperity of the whole industry development. According to the industry development report data, as shown in "Fig. 3", the status and trends of China's express delivery industry shows that the volume of express business is highly correlated with macroeconomic development. Express industry leveraging the national economy and the development of e-commerce all the way, but also effectively promote the development of the national economy.

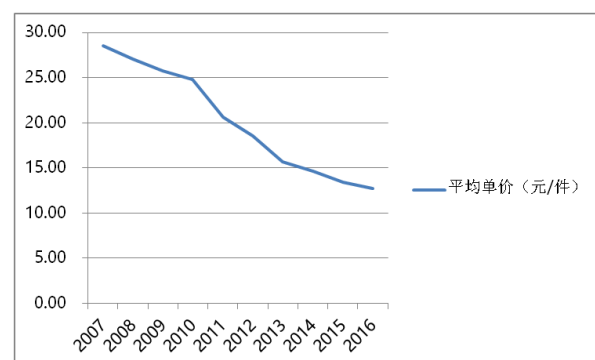


Fig. 3. Express business average unit price curve. (Source: National Bureau of Statistics Annual Data)

B. Development Bottleneck

As the above data revealed that China's express industry is experiencing a period of great development of the high-

speed operation. But after raging like a storm more than ten years, the express industry competition has intensified, the industry has entered the era of small profits. National Express total growth rate has slowed, before 2010 there is a accelerated growth, and reached the peak of 76.44%. After that the growth rate began to slow down, up to 2015, it has dropped to below 50%, which is consistent with the development trend of the new macroeconomic norm. In addition, due to large and small companies emerged like bamboo shoots after a spring rain, the competition become more intense. The major courier companies have been playing the price war, resulting in the average price of express business also declined year by year. With the rise in labor costs and warehousing costs in recent years, courier industry profits continue to be compressed, the industry gross margin decreased from 30% to the current level of about 5%. In this moment, the rapid developing delivery industry needs a lot of capital investment, to promote the leading courier companies developing a new development differences which can sustainable develop. And breaking the vicious circle of people sea tactics and price war, creating a new service content, transferring the consumer's attention from the price to the overall value. And moderately reshuffling the market, ultimately leading the industry to board a new stage of development. The most important way of getting a large number of funds is listing, so since 2014, the courier industry's great giants are actively seeking listing.

On the other hand, the statement promulgated the "Some opinions of the State Council on promoting the development of express delivery industry" in October 2015, to promote the development of express industry. With the opening of the domestic market, international express giants are also eyeing the Chinese express market. In June 2012, FedEx and UPS get domestic express business license. In December 2014, KerryEAS, Yamato and OCS have been approved the operation of the domestic parcel delivery services by the State Post Bureau. These international courier giant is still adapting to the localization process due to some reasons such as the high cost of operation. But its abundant financial strength, plentiful technology and management experience is likely to become a strong domestic courier companies in the future. ProQuest magazine made a Market Research Report on China's express delivery industry in 2009 after the release of the new express law, believing that there will be 40% local courier companies and 30% alliance companies will merge, reorganization, agency or close [12].

C. Driver Analysis

1) *Financing Demand*: Enterprises can obtain financing channels from the stock market through the listing. Especially in China's current system, enterprises get finance from the capital market costing little, listed as the first choice for enterprises to obtain capital support. Huang shaoan, Zhang gang (2001) found that there is a strong equity financing preferences in China's listed companies through the empirical study [13]. Chen Yugang, Dou Qian and Liu Hang (2012) confirmed the amount of IPO raised funds and capital expenditure is positively related to the IPO after the Stock issuance and debt financing also provide

follow-up capital support for the company's development, which can be seen as an indirect driver of the company's IPO [14].

In recent years, the SF Group actively expand business areas. Business scope includes courier business (domestic and foreign), warehousing and distribution services, transport, cargo transport business business cold, financial services and value-added services, has not only been a simple logistics company. With the expansion of SF, the amount of money needed is growing. "Table II" is a subsidiary of SF holdings in recent years.

TABLE II. SF HOLDINGS SUBSIDIARIES

Time	Cost	Name
2003.07.10	400billion	EMS express
2009.03.20	50000billion	SF Airlines
2009.08.24	1000billion	SF electricity supplier
2011.08.28	300billion	SF business
2013.04.16	50billion	SF property
2013.07.25	15000billion	SF EXPRESS
2013.10.24	786billion	Fitch consulting

In addition, SF is committed to creating high speed logistics and quality services, and actively develop air transport and information logistics system. The size of its assets compared to ordinary courier companies is much bigger. Ding Tai in May 23, 2016 issued an announcement and display related transaction plan , SF holding's asset size is very large.

Although SF has been declared that he is not short of money, and its operating margin is also the industry leader, but in such a large scale of expanding activities, whether it is really not short in money? 2013 SF received 8 billion financing at the cost of 25% stock rights, has shown that it needs a lot of money. It is understood that the funds are not only used in the acquisition of land and aviation hub, but also for automation systems. The field of diversification is also in need for funds to expand. It is only a drop in the bucket of 8 billion yuan, completely unable to meet the needs of SF holdings of this monster, listing and financing is its inevitable choice.

2) *Reason for control*: A large number of empirical and case studies show that the purpose of the company is listed for its subsequent M & A activities. Hsieh, Lyandres and Zhdanov (2009) found that the wave of mergers and acquisitions will appear before the wave of IPO [15]. Qin Duo (2012) proved that the market feedback hypothesis and the financing hypothesis are all established in China. The greater the value mutation, the higher the cost of IPO, and the greater the likelihood of M & A within 5 years after IPO [16]. At present, an obvious characteristic of China's express industry is that there are many courier companies, and the quality varies greatly. On the one hand, it leads to the continuous compression of the industry profits, on the one hand, it seriously affects the service level of the whole industry. According to the courier market regulatory report "Fig. 3" which the State Post Bureau issued in 2015, We can

see that CR4 of recent five years (The income of the top four express brands accounted for the proportion) remained at around 80%, in a slight downward trend. CR8 (The income of the top eight brands accounted for the proportion) decreased from 68.5% to 54%. According to the division standard of industry from American economist Bain and MITI, 40% CR8<70% is less concentrated.

The courier industry in the world occurred several times of mergers and acquisitions, and gradually formed the three major express delivery giant, FEDEX, UPS and DHL. According to the official website of China Post published in August 2015, DHL's share of the courier market in Asia is about 41%, FEDEX occupied 21% of Asian express market, and UPS also plans to invest \$2 billion over the next five years to improve the international network. Including the expansion of operations in China, covering 90% of China's region. The international express market situation develops, and the domestic express industry is also not very calm in recent years. In 2016, for example, in April 20th, Zhejiang IDC Fluid Control Co., Ltd. transferred 100% stake to STO Co., Ltd., priced at RMB 2 billion 250 million yuan. In July 2nd, Ningbo Xinhai Electric Limited by Share Ltd proposed transferee Shanghai rhyme Freight Co., Ltd. 100% stake at a price of 18 billion yuan. In September 24th, Heilongjiang Heihua Co., Ltd. transferee Quanzhou Antong Logistics Limited by the way of capital intended at the price of 644 million yuan. This series of mergers and acquisitions show that seemingly calm courier industry actually undercurrent. According to the experience of the international express market development, only four or five courier companies can survive in the market competition, and the domestic courier industry will eventually face mergers and acquisitions integration. The first to be listed can win whe development opportunities and help companies survive in the merger war.

Express industry is a typical representative of "scale economy" in Economics "Fig. 4". Although the fierce competition in the industry led to a low degree of brand concentration in recent years, the inevitable trend of the development of the industry is a large number of mergers and acquisitions. Jiang Bao and Li Jian (2015) demonstrate that the effect of capital density on the total factor productivity index of express industry is positive. With the increase of the capital density, the decrease of human capital and the density of R & D, the scale of the local market has a positive effect on the improvement of total factor productivity and technological progress [17]. At present, the courier giants are still in the state of extensive expansion because of lack of financial support. But since 2015, SF, STO, YTO, ZTO, BEST and many other mainstream courier companies are actively seeking a listing. Once successfully list in the next few years, they are likely to fuel the current wave of cross-border mergers and acquisitions in China. SF holding in such a hurry listed, let people full of reverie of the mergers and acquisitions actions after the listing.

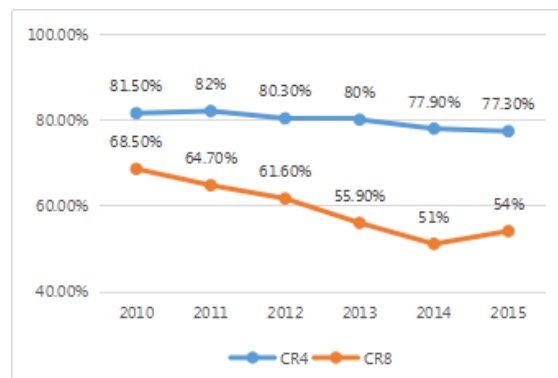


Fig. 4. Express industry concentration curve. (source: National Post Office)

3) *Market timing Motivation:* Liu Lanbiao, Li Gongmin (2005) found that China's listed companies do exist stock market financing and debt financing timing behavior [18]. Shen Weitao, Ye Xiaojie and Xu Wei (2013) prove that the venture capital institutions do not help to improve the probability of IPO through the issuance of audit and select the better market, but experienced and foreign background venture capital institutions have such ability [19]. Current favorable policy environment is an important opportunity to achieve leapfrog development of the company. As the courier industry contributes to solving employment, electricity supplier development and enhancing the level of development of China's social logistics significantly, the government increasingly concern about and support the development of the industry. After the revision of the postal law in 2009, the central and local governments have introduced a variety of policies to promote the development of express delivery industry. Especially in 2014, the Chinese government formulated the "Medium and long term planning of logistics industry (2014-2020)", formally proposed that the direction of development of China's express industry is Pratt & Whitney, market-oriented and international.

IV. CONCLUSION AND SUGGESTION

In the foreseeable future, the courier industry and capital market will contact more closely, the domestic express industry has gradually entered the "era of capital". In this industry background, the large courier company should conform to the trend of the listed, actively seek listing, and get financial support. Even through the shortcut of backdoor, being the first batch landing in the capital market. Listed companies should seize the opportunity to actively carry out capital operations, adjust the investment policy, and appropriate expand. Through mergering other small courier company, quickly occupying and expanding their market share, improving the strength of the company. And a number of small and medium courier companies should be able to find their own patron as soon as possible. Only in a strong financial support of the parent company, it is possible to stand down in the future brutal market competition.

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