

# Analysis of the Motivation and Financial Performance of Yuantong Express Backdoor Listing

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**Abstract.** With the backdoor listing of Y. T. Express, the article analyses Y. T. Express internal and external advantages and disadvantages, and then summed up the motivation of this backdoor listing. The biggest reason for Y. T. Express's choice at this time is that the company is currently at a very important stage, urgently needing funds to expand market share and scale, and seeking enterprise transformation. The analyses from the article of the financial performance by financial indicators analysis, with the industry average, find that its ability had improved after the backdoor. Finally, this paper proposes relevant recommendations and the proposed backdoor logistics enterprises for the regulatory authorities.

## 1. Introduction

Since 2015, the growth rate of the express logistics industry has been slowing down, and its profiteering era has become a thing of the past. However, due to the current poor economic situation in the country as a whole, the development speed of various industries has been greatly reduced, and overcapacity is more serious. Although the growth rate of the express delivery industry has declined, it has remained above 20%, and its high growth rate has attracted the attention of investors. China's three major e-commerce and foreign express industry giants rely on their own advantages to enter China's express market, accelerating the industry reshuffle, so that express delivery companies are under pressure. On the other hand, because the homogenization of express delivery companies is very obvious, companies often need to drive down more prices to win more market share, which requires more funds to support. Therefore, express delivery companies have pinned their hopes on the capital market and sought listing financing. Of course, the state's various preferential policies for the express delivery logistics industry have also greatly promoted the pace of restructuring and listing of express delivery companies.

Around 2016, many express delivery companies such as SF, Y. T. and S. T. are rushing to go public, and "the China's first express delivery industry" ultimately belongs to Y. T. Express. In 2016, as the first year of China's express logistics industry, there are too many wonderful moments to recall. During the fierce competition, people are thinking about it: Why do logistics express companies choose to backdoor listings? Although foreign countries have studied the backdoor listing earlier, they often compare it with IPO listing, and there are few studies on their motivation and performance. Most of the existing researches believe that the motivation for companies to use the backdoor listing is mainly that the threshold for backdoor listing is lower than IPO and the time is short and the cost is low <sup>[1]</sup>, after the backdoor transaction, through effective integration, both parties can get huge profits <sup>[2, 3, 4]</sup>. Through the research on the creation of Y. T. Express by D. Y., this paper finds that the policy support of the government is also a great driving force in the cause of borrowing <sup>[5]</sup>, and enterprises can also improve their previous inherent ills through backdoor restructuring. In terms of financial performance, backdoor listings can indeed make enterprises more effective. In addition, this article also provides some suggestions for the proposed backdoor enterprises and related regulatory authorities.

## **2. Case introduction**

### **2.1 Both sides of a shell**

On May 28, 2000, Y. T. Express was established in Shanghai. Its main business are express delivery service, warehousing and distribution, and collection of goods. By 2015, China's 31 provinces, cities and districts are covered the company's express service network, which covers all cities above the prefecture level (except Tibet's Ali area) and 93.9% of cities above the county level. In October 2015, the company began its aviation operations services. On June 8, 2000, D. Y. Creation (600233) was listed on the Shanghai Stock Exchange and was controlled by D. Y. Group. The company's main products are: all kinds of high-end dress, women's clothing, cotton, sportswear, but also include clothing quality inspection, surface accessories procurement, purchase and sales order management. Its market faces global, with the country's first annual export volume of suits, reaching more than 3 million sets. Most of its products will be sold to clothing retail giants in the United States, Britain, Germany, Japan and other countries, such as P&C, Macys, M&S, Aoki and so on.

### **2.2 Backdoor listing process overview**

On January 5, 2016, D. Y. Creation's stock was suspended, and the announcement stated that the company is about to conduct an acquisition. On January 16, 2016, D.Y. Creation announced that it had communicated with both parties through the transaction and agreed that D. Y. Creation would replace its business, assets, liabilities, personnel, etc., and issued new shares to Y. T. Express shareholders, and then purchased the original shareholders. Y. T. Express all the shares and raised matching funds. At the end of the transaction, D. Y. Creation will hold Y. T. Express, and D. Y. Creation will be controlled by the actual controller of Y. T. Express. On September 20, 2016, D. Y. Creation basically completed the major asset restructuring and successfully acquired the entire equity of Y. T. Express, becoming the controlling parent company of Y. T. Express. On October 17, 2016, the name of D. Y. Creation was changed to Y. T. Express Co., Ltd., and the registered capital increased to RMB 2,821,229,621. The business scope has become domestic and international courier services, as well as foreign freight forwarding agents, supply chain management, general cargo warehousing and car rental services. The renamed Y. T. Express was officially traded on the Shanghai Stock Exchange on October 20, 2016, and successfully became the "listed first stock" of China's express logistics industry.

## **3. Case analysis**

### **3.1 Analysis on motivation of backdoor listing**

#### *3.1.1 Internal and external factors*

1) Internal advantages: After Y. T. Express basically achieved nationwide service network coverage, the net network of Y. T. become efficient, stable and powerful. It is the first company in the industry to achieve 365 days of service throughout the year and has its own airline. As for the advantages of the Internet information technology platform, since 2009, Y. T. has its own 3PL information service integration platform, which greatly improved its service efficiency.

2) Internal disadvantages: Lack of sustained and stable funds. As a small enterprise with an initial registered capital of only 1 million RMB, Y. T. Express has tremendous pressure on the supply of funds. The corporate strategy is unclear and the positioning is not accurate. Poor service quality leads to customer churn. Under the franchise model, enterprises rely on various forms of fines to deter franchisees, making franchisees lack a sense of belonging to the company. The franchisees only seek their own interests, resulting in internal competition that consumes overall strength, and does not value the entire group's brand.

3) External opportunities: With the support of relevant industrial policies, the state has formulated a series of related supporting policies to promote the accelerated transformation of express logistics enterprises and encourage enterprises to expand their scale through mergers and acquisitions. The rapid development of the service industry has made the express delivery industry have a better

development environment. Industry investment continues to expand. With the further opening of the postal market, foreign companies and private capital are accelerating into the logistics express industry. The pattern of social production and consumption has changed. The development of information technology has made residents' consumption more convenient and fast, and the consumption pattern of residents has gradually changed to individualization.

4) External threats: Since 2015, the growth rate of the express delivery industry has gradually slowed down, and the growth rate in January 2016 has been slower, from 48% to 34%. Increasing costs and rapid rising in labor costs have led to a rapid increase in operating costs. With the rapid development of the express logistics industry, the competition in the industry market has been intensified, not only in the existing competitors of EMS, SF, but also in the potential competitors of J. D., S. N and Ali. They also responded quickly, and even worse, even the two major US express delivery companies, FedEx and UPS, began to enter the Chinese market.

### 3.1.2 Motivation analysis

This paper analyzes the advantages and disadvantages of both internal and external aspects of Y. T. Express's backdoor listing, and concludes the following reasons for the listing of Y. T. express couriers:

1) Express industry profiteering era has been in the past, enterprises to strengthen the defense to avoid being eliminated. According to relevant data, faced with the slow industry growth and excess capacity in 2015, China's express delivery industry operating condition of growth is far lower than in previous years. In order to avoid being eliminated, express logistics companies began to seek the backer to help fund listed status.

2) With the participation of strong competitors, the express logistics industry will speed up the reshuffle.

3) With the "Join ills" highlight, enterprises seek economic support from funds to the transform. Company needs a lot of money to strengthen technical change, to improve the operation and management, and to infrastructure construction of mechanization automation, breaking through difficult position of the mode of existing directly mixed with joining dilemma and the national network operation mode.

4) Listed at the fastest speed, to strengthen participants' sense of honor and sense of belonging Y. T. express hope that the first brand effect for enterprises can make enterprise well-known, the more important is to boost franchisees and shareholders of Y. T. express the sense of belonging and sense of honor.

5) With the industry policy support, enterprise development environment is superior.

## 3.2 Financial performance analysis before and after backdoor listing

Rely on financial index analysis, this paper respectively from profitable operation of a sinking and growth these four aspects to analyze Y. T. express ability, and the backdoor listing financial indicators and related indicators before and after comparison, analysis of the change of its financial performance.

### 3.2.1 Analysis of profitability

Table 1 Profitability indicators for 2013-2017 (Source: Wind)

YTO Express	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
gross profit rate(%)	37.49	16.85	13.73	13.56	11.70
net profit margin on sales(%)	14.36	8.41	5.69	8.16	7.99
rate of return on total assets(%)	30.01	21.76	12.19	14.71	10.22
reward rate of ownership(%)	50.33	37.18	20.41	21.30	3.35
industry mean	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
gross profit rate(%)	5.19	5.47	5.32	8.78	8.01
net profit margin on sales(%)	2.36	2.03	1.83	3.89	2.80
rate of return on total assets(%)	4.13	3.42	3.14	8.33	1.21
reward rate of ownership(%)	11.45	10.32	9.46	22.23	3.10

### 1) Gross profit rate

From the point of sales gross profit rate, in recent years, the company's gross profit rate has been falling. While the sales revenue of Y. T. Express has increased every year, but because its cost is high, leading a slow operating profit growth and making the gross margin decline year by year. But relative to the industry average, its gross margin is still higher level.

### 2) Net profit margin on sales

Before the company sales, net interest rate had been falling, and in the year of backdoors, the recovery was achieved and its interest was stable in the first quarter, which explains that the backdoor makes the profitability of the tact. Compared with the industry, the net profit margin is basically 2-3 times higher than the industry average, which means that the company's profitability is good. After the listing, this state above the industry average is still maintained and has an increasing trend.

### 3) Reward rate of ownership

In 2013-2015, Y. T. Express' reward rate of ownership has been reduced, and reduced significantly by 50% each year to around 20%. After the backdoor, the downward trend has improved, and the backdoor has seen a small rebound, which explains that the profitability of the company is improved. Compared with the industry, before the backdoor, the rate of return of Y. T. had been always higher than the industry average, but because the overall rate of return of the industry suddenly increases rapidly, the return rate of the company is slightly lower than the industry average, indicating the profit of the company in 2016. The growth of capacity is not as good as the growth of the entire industry.

### 3.2.2 Operational capability analysis

Table 2 Operating capacity indicators for 2013-2017 (Source: Wind)

YTO Express	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
Receivable turnover rate (second)	70.54	88.72	87.54	93.65	18.37
Inventory turnover rate (times)	334.38	408.47	537.93	608.01	89.64
Current assets turnover rate (second)	6.42	5.88	4.72	3.08	0.56
Fixed asset turnover rate (second)	11.08	11.56	12.94	10.20	1.68
industry mean	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
Receivable turnover rate (second)	11.1793	10.7202	10.8283	14.3233	3.0499
Inventory turnover rate (times)	18.1438	16.2825	15.018	18.8986	3.4691
Current assets turnover rate (second)	2.34	2.20	2.30	3.21	0.67
Fixed asset turnover rate (second)	18.5151	18.1477	17.5983	16.8083	3.1562

### 1) Receivable turnover rate (second)

The turnover rate of Y. T. Express's accounts receivable has risen steadily in recent years. The accounting receivables of the company's accounts receivable have a stable accounting policy, and the company's accounts receivable turnover rate is relatively stable. In general, Y. T. has always maintained its advantage over the industry average, indicating that the use of assets is better and the assets can be operated reasonably and efficiently. Less working capital is occupied by accounts receivable, which shows that the company's ability to pay back is strong, and far higher than the industry average.

### 2) Inventory turnover ratio

The inventory turnover rate of enterprises is gradually increasing, which means that the level of inventory occupancy is gradually decreasing, and the liquidity of enterprise inventory is gradually strengthened. In the year of the backdoor was even more than 31 times higher than the industry average, indicating that the company's operational capacity is strong, and the liquidity of inventory is much higher than the industry average.

### 3) Liquidity turnover rate

Since 2013, the turnover rate of Y. T. Express has been slowly declining, mainly due to its large growth in liquid assets in recent years. Before the listing of the backdoor, the turnover ratio of the company's current assets was higher than the industry average, but it was slightly lower than the average after the backdoor. The company's current assets grew too fast in 2016, among which other

liquid assets and monetary funds rose the most, at 84.60% and 142.14% respectively. In the short run, companies are not using their current assets very well.

#### 4) Turnover of fixed assets

Before the backdoor, the fixed asset turnover rate of Y. T. Express fluctuated within a certain range, but decreased after the backdoor, and always lowers than the industry average, which does not mean that the efficiency of the use of fixed assets is reduced. The increase in fixed asset investment by enterprises is constantly expanding the scale of enterprises, indicating that Y. T.'s future development prospects are good. In 2016, Y. T. Express vigorously developed its air transportation business, which nearly doubled its fixed assets.

#### 3.2.3 Debt paying ability analysis

Table 3 Indicators of solvency in 2013-2017 (Source: Wind)

YTO Express	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
liquidity ratio	0.88	1.03	1.22	2.25	2.73
quick ratio	0.86	1.02	1.21	2.24	2.71
cash ratio	0.32	0.34	0.24	0.55	0.98
Operating cash current liabilities ratio (%)	81.82	54.84	47.60	64.34	-0.10
asset-liability ratio (%)	48.09	45.54	37.53	26.53	20.69
number of times interest earned	159.13	148.4852	218.4675	395.47	279.64
industry mean	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
liquidity ratio	1.2232	1.2366	1.2363	1.2855	1.2684
quick ratio	1.0648	1.0797	1.038	1.0905	1.0123
cash ratio	0.4294	0.4497	0.4350	0.3659	0.3658
Operating cash current liabilities ratio (%)	-15.62	-11.42	4.03	9.00	-9.70
asset-liability ratio (%)	65.42	66.29	63.71	57.17	59.09
number of times interest earned	15.692	13.9036	80.8177	216.7058	19.0599

#### 1) Flow rate analysis

Since 2013, the flow ratio of Y. T. Express has been slowly rising. After borrowing, its current ratio has rapidly increased to 2.25. The main reason is that the monetary funds in the current assets have increased substantially, from 32,217,180 RMB to 417,365,900 RMB, an increase of nearly 13 times. The current ratio of the industry average is basically maintained between 1.2 and 1.3. After the back-to-back, the indicator is closer to the Western practice 2, indicating that the short-term solvency of Y. T. Express is enhanced.

#### 2) Quick ratio analysis

Since Y. T.'s main business is transportation business, the company's inventory is relatively small, so its quick ratio is close to the current ratio. After the backdoor, it reached 2.24, which is much higher than the industry average. The highest proportion of quick assets is the wealth management products in other current assets. It shows that Y. T. prefers to invest its funds in short-term investments. The main reason may be that enterprises need a lot of money in daily operations and scale expansion, and the funds are more flexible for short-term investments.

#### 3) Debt-to-assets ratio

The asset-liability ratio of Y. T. Express has always been lower than the industry average, and it has decreased significantly since the listing, from about 40% to about 20%, nearly doubled. The main reason for this change is that its total assets have nearly doubled from 2015 to 2016, while liabilities have only increased by about 195.55 million. The reduction in the asset-liability ratio represents an increase in the company's long-term solvency.

### 3.2.4 Growth analysis

Table 4 Growth capacity indicators for 2013-2017 (Source: Wind)

YTO Express	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
NAV (%)	27.56	33.38	60.89	139.12	3.04
Net profit growth rate (%)	7.41	6.06	3.45	91.16	7.01
industry mean	2013/12/31	2014/12/31	2015/12/31	2016/12/31	2017/12/31
NAV (%)	18.66	31.82	37.53	91.16	7.01
Net profit growth rate (%)	20.25	9.91	20.50	231.42	241.40

#### 1) NAV

The net asset growth rate of Y. T. Express has been increasing fast, indicating that the company has been in the investment development period and has more than doubled in 2016, mainly because of the large amount of investment by investors in the year. Except for 2017, Y. T. Express's net asset growth rate is always higher than the industry average, indicating that it has been continuously expanding its scale and its investment in 2017 is relatively small.

#### 2) Net profit growth rate

Before the backdoor, Y. T. Express was affected by the slowdown in the development of the e-commerce industry, the impact of the franchise system and the “price war”, and its net profit growth rate was always declining. In the year of listing, its net profit growth rate was as high as 91.16%, but its growth rate in 2017 was only 7.01%, which was not in line with expectations. The reason may be due to the previous network turmoil and unsatisfactory expansion of its aviation business. Compared with the industry average, Y. T.’s net profit growth rate is always at a low level. Overall, Y. T.’s net profit growth ability is not strong, but it has improved significantly after the backdoor.

In terms of financial performance, this section compares and analyzes the changes of various indicators before and after the backdoor, and finds that the company's scale expansion in the current year is faster and its profitability is enhanced. The company's ability to operate its assets is enhanced and its long-term solvency is significantly improved. However, from the data of 2017, the growth ability of the company has not been greatly improved after the backdoor. If the company can properly shrink its aviation business and reasonably improve its “joining system”, relying on its information platform and network advantages, enterprises may achieve higher growth rates.

## 4. Research conclusion and suggestion

This paper takes Y. T. Express as an example, and analyzes its borrowing motivation and its impact on the financial performance of backdoor companies, and summarize two conclusions: 1) Y. T. Express backdoor listing motivation: The era of profiteering in the express delivery industry has passed, enterprises seek transformation to prevent being eliminated; with strong rivals joining, express logistics industry accelerates reshuffle; the “franchise ills” are highlighted, companies seek funds to support transformation; enhance the sense of honor and belonging of the participants; strong support from national industry policies enables companies to develop in a better environment. 2) By comparing and analyzing the changes of various indicators before and after the backdoor, it's found that the company is expanding faster and the profitability is enhanced. The company's ability to operate its assets is enhanced and the long-term solvency is significantly improved.

Based on the above research and conclusions, this paper puts forward some suggestions for the regulatory authorities and backdoor listing express logistics enterprises, in order to better promote the development of China's express logistics enterprises: 1) From the perspective of relevant regulatory authorities, it is necessary to further improve the capital market, optimize information symmetry, reduce the risk of the company in the selection of shells, and strictly review possible connected transactions to avoid unfair transactions. 2) From the perspective of the backdoor company: First of

all, it is necessary to seize the opportunity of backdoors and obtain the qualification for listing as soon as possible. Not only can the capital be acquired earlier, but also the advertising efficiency can be obtained; the second is to strengthen the control of the risk of the shell selection and choose the right shell. The backdoor company should maximize the internal information of the shell company, especially some potential risks, and consider listed companies with small equity, single ownership structure, and potential risks such as contingent events and external guarantees are small <sup>[6]</sup>. This kind of companies is good for backdoor operations and back integration. Third, choosing the right mode of operation and payment method to reduce the cost of backdoors. The two most critical steps in the backdoor listing are control acquisition and asset replacement. The backdoor company should choose the backdoor model according to its own situation. It is to buy the shell company's equity or issue shares to buy it. The assets that are replaced are absorbed or resold by themselves, which assets are put into it, and so on. It can be considered to pay the consideration by issuing convertible bonds, which can enable the backdoor company to bear lower costs and looser contractual conditions, and obtain the option for the original shareholders of the shell company, gain higher benefits through the conversion between bonds and equity. Finally, backdoor companies can make full use of this integration opportunity to improve corporate governance and promote the upgrading and transformation of its model.

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