

Exploring the Impact of Private Equity Investment on Corporate Performance: A Case Study Pharmablock

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Abstract. Reasonable use of private equity investment not only effectively solves the problem of corporate funds, but also rapidly enhances the expansion of enterprises; Equity participation in enterprise management and decision-making can also make the development of enterprises more scientific and efficient. However, private equity investment also has the attribute of a "double-edged sword", such as excessive participation in internal business operations and the timing of exiting equity, which greatly affect the decision-making direction and debt stability of enterprises. This article takes Nanjing Pharmablock Co., Ltd., hereinafter referred to as "Pharmablock", as an example. By interpreting the process of private equity investment and investment, it studies the changes in the company's financial indicators such as profitability, debt repayment ability, and development ability, interprets the impact of private equity investment on enterprises, and ultimately identifies relevant issues and proposes corresponding suggestions.

Keywords: Private equity, Corporate performance, Pharmablock.

1. Introduction

1.1. Background Introduction

After years of rapid economic development, various industries in China have made significant progress, and private equity is no exception. Although the industry started late, it has developed rapidly, showing characteristics of diversified fields and exit channels. Especially in recent years, among companies listed on the ChiNext board, private equity investment has a wide range and a high proportion of investment scale. Moreover, investment is mostly focused on technological innovation, semiconductors and electronic equipment, biotechnology and healthcare, and the investment amount accounts for 48% of the market weight. Private equity investment has become an important participant and practitioner in China's economic development, greatly promoting domestic economic development and technological progress. This article will select Pharmablock, a technology innovation enterprise in the pharmaceutical industry that has been invested in by private equity, and analyze the dimensions of the impact of private equity investment on corporate performance. The CRO industry is the cornerstone that leads the innovative development of China's future pharmaceutical industry. Pharmablock is one of the outstanding representatives in the CRO industry. As a one-stop innovative product and service provider in the global pharmaceutical research and manufacturing field, it has been active in the biopharmaceutical industry in recent years and has an intelligent advanced manufacturing and business service model. Studying the impact of this private equity investment on the performance of the enterprise will have practical significance for related science and technology innovation companies.

1.2. Overview of Private Equity Investment

Private equity refers to equity investments made to private enterprises, namely non listed enterprises, through private placement or fundraising, especially in some newly established enterprises. The financing is used for business expansion and company operation, and ultimately exits the investment project and gains benefits through enterprise listing, listing on the New Third Board, equity transfer, and other means [1].

1.2.1 Characteristics of private equity investment

(1) The fundraising is non-public

Private equity is mainly raised to a small number of institutional investors or individuals through non-public means, and sales and redemptions are also conducted privately with investors. These specific investors often have a high-risk tolerance. In addition, private equity funds also come from a wide range of sources, including venture capital, merger and acquisition funds, pension funds, and insurance companies [2].

(2) Higher return on investment

The main purpose of private equity investment is usually to obtain high investment returns, investing in the common stocks issued by the company. The goal of selecting projects is mainly based on whether they can bring high investment returns, rather than just focusing on the novelty and advanced level of technology [3].

(3) The investment cycle is relatively long

The main source of income for private equity investment institutions comes from the appreciation of the equity of the invested company, but equity appreciation is often a relatively long process, so the investment cycle of most private equity investments is relatively long, usually up to 3-5 years or even longer, belonging to medium to long-term investments [4].

(4) Poor liquidity

Due to the lack of a readily available market for the transferor and purchaser of equity in non-listed companies to directly enter into transactions, the liquidity of private equity investments is poor. At the same time, the exit channels for private equity investments are also diverse, including IPO, mergers and acquisitions, management buybacks, and other methods [5].

1.2.2 The operating mechanism of private equity

(1) Fundraising stage

Fundraising is an important part of private equity investment, and in general, the initiators of the fund will privately negotiate with investors for investment. At present, the main fundraising targets for private equity are as follows: first, individual investors, usually executives of listed companies or high net worth clients; The second is institutional investors, generally venture capital institutions engaged in private equity investment such as securities, insurance, trusts, pension funds, etc. The third is government guided funds, which are generally policy funds established with government investment and attract various types of social capital to participate through equity or bonds.

(2) Investment stage

The investment stage is an important stage for private equity to successfully exit and obtain investment returns. Firstly, investors will conduct extensive data collection and screening to review multiple project proposals; Subsequently, investigations and evaluations will be conducted on the project, and conducting detailed research on the project after approval can effectively identify risks and take preventive measures; Secondly, after the project is determined, a comprehensive evaluation of the project will be carried out. Finally, both the investor and the investee will negotiate and sign a cooperation agreement to ensure the development and progress of subsequent projects.

(3) Project management phase

After the investment phase is completed, the project enters the post investment management phase. Post investment management mainly involves risk monitoring of the project itself and value-added services for the invested enterprise. Value added services refer to the use of investment resources by investors to help invested enterprises gain more market competitiveness based on their existing advantages. At the same time, private equity investment institutions will also select professional managers to enter the enterprise, provide guidance on the management and decision-making of the enterprise, continuously improve the overall governance structure and internal incentive mechanism of the enterprise, and ultimately effectively promote the improvement of the enterprise's business performance.

(4) Exit phase

IPO exit. IPO refers to the listing of a company, and the company can choose to raise funds in domestic or overseas markets according to its own situation. However, IPO exit has strict requirements for companies and is likely to fail, and private equity may have a lockdown period after an IPO, so the risk of IPO exit is usually higher.

Equity transfer withdrawal. Equity transfer refers to private equity investors transferring their shareholder equity to other institutions or enterprises for a fee in accordance with the law, usually through mergers or acquisitions to cash out and exit. This exit method has a lower complexity and saves time, while also providing resources and channels for enterprises, which is conducive to improving operational efficiency.

Sell out. Generally, it refers to the management or shareholders of a company buying back shares from equity investment institutions, which can maintain the independence of the company and avoid the impact of capital withdrawal on the company. At the same time, the complexity of transactions will be relatively low in cost.

Liquidation exit. When the business operation is not ideal, the company will sell its own assets and carry out liquidation with creditors and shareholders. Adopting liquidation to avoid greater losses is a helpless move [6].

2. The Process of Private Equity Investment in Pharmablock

Nanjing pharmablock Co., Ltd. (stock code: 300725, abbreviated as Pharmablock) is a one-stop innovative product and service provider in the global pharmaceutical research and manufacturing field. The company is always committed to innovating chemical and low-carbon technologies in research and production processes, helping partners improve the efficiency of new drug discovery and development, and accelerating the project launch process. Since its operation in 2008, Pharmablock has established partnerships with almost all of the top 20 pharmaceutical companies globally and hundreds of small and medium-sized biotechnology companies. Pharmablock assists in drug discovery with its novel and unique molecular building blocks and related compound library screening technology; And establish an integrated CMC platform to provide efficient and high-quality process development and production services for intermediate, active pharmaceutical, and pharmaceutical formulations for innovative drug research and commercialization projects; At the same time, the company integrates its accumulated capabilities in cutting-edge technologies such as continuous flow chemistry, micro packed bed technology, catalytic technology, and intelligent manufacturing over the years, actively exploring advanced manufacturing and service models for green, safe, and intelligent biopharmaceutical fields, and promoting innovative development in the industry.

On September 30, 2015, Pharmablock made a shareholder meeting resolution to agree that High tech Pharmaceutical Valley would transfer its 1.80% equity stake to Hengchuan Asset Management at a price of 8.1 million yuan; Agree to transfer 8.19% equity of Yaoshi held by Nanjing Jinmao to Hengchuan Asset Management at a price of 36.855 million yuan; Agree to transfer Wu Yaojun's 9.0% equity in Yaoshi Limited to Hengtong Boyuan for a price of 40.5 million yuan. The specific shareholding situation are show in Table 1.

Table 1. The specific shareholding situation

Number	shareholder name	Shareholding ratio	Shareholding quantity	Restricted shares
1	Hengchuan Asset Management	9.54%	4772321	4772321
2	Hengtong Boyuan	8.60%	4299363	4299363

3. The Impact of Private Equity Investment on Corporate Performance

Therefore, this article will use financial indicators to construct an evaluation system to measure the performance of Pharmablock. Data from 2014 to 2017 will be selected from the information published on Pharmablock's official website, and 2015 will be defined as the first year after PE finance, in order to discuss and summarize the impact of private equity investment on Pharmablock. This article measures corporate performance from four aspects: profitability, operational capability, debt repayment capability, and development capability, and draws corresponding conclusions:

3.1. Private Equity Investment with Strong Capabilities, Continuously Maintaining a High Level of Profitability

The total asset profit margin indicator in profitability analysis is the ratio of total profit to average total assets, presenting the asset liability situation; Sales gross profit margin is the percentage of gross profit to sales revenue, which is the specific manifestation of a product's "moat"; The operating profit margin is the percentage of operating profit to net sales, reflecting the marginal revenue of product sales; The higher the asset return rate, the higher the asset utilization efficiency of the enterprise.

Table 2. Operating profit margin statement

Index	2014	2015	2016	2017
Total asset profit margin (%)	22.1126	11.5129	11.3564	9.3186
Sales gross profit margin (%)	66.7465	61.1329	66.3332	67.0241
Operating profit margin (%)	32.1579	17.7296	30.6344	27.365
Asset return rate (%)	36.2866	22.1323	11.3564	18.9152

Data source: Oriental Wealth Network

As shown in the table 2, after the introduction of private equity investment in 2015, the total asset profit margin of Pharmablock decreased from 22.11% to 11.51%, a decrease of 10.6 percentage points, indicating that private equity investment has brought capital investment to Pharmablock and effectively alleviated the company's debt situation. The gross profit margin of sales first decreased by 5.61 percentage points, and then reached the previous level with a slight increase in 2017. After introducing private equity investment, Pharmablock used the technology brought by investment institutions to complete product upgrades and achieved product appreciation in 2017. After the introduction of private equity investment, the operating profit margin of Pharmablock decreased from 32.16% to 17.73%, a decrease of 14.43 percentage points. According to Pharmablock's 2015 annual report, Pharmablock accelerated its expansion in 2015, investing a large amount of funds and human resources, resulting in a decrease in the operating profit margin of the enterprise. These funds came from newly joined private equity investment institutions, which helped the enterprise expand its scale Increase production capacity. Has a positive impact on business expansion. In addition, the asset return rate of Pharmablock has also decreased by 14.16 percentage points, indicating a significant decrease in the investment efficiency of Pharmablock's enterprises. Private equity investment institutions have brought about an improvement in the business activities of Pharmablock. From 2014 to 2015, the total operating revenue of Pharmablock increased from 76.64 million to 136.1 million, with a total revenue growth rate of 77.58%. This indicates that the financial support, management experience, and resources provided by private equity investment institutions to Pharmablock not only help it expand its business scale and increase production, but also help it improve operational efficiency and competitiveness, ultimately achieving growth in profitability.

3.2. Improve the Company's Asset Structure and Continuously Unleash its Vitality.

In the operational indicators, two indicators, total asset turnover and current asset turnover, can be selected to measure the operational capacity of Pharmablock. Reflect the turnover efficiency of the enterprise, and the total asset turnover rate can reflect the efficiency of the enterprise in using all its assets for business activities; The current asset turnover rate can reflect the speed of a company's current asset turnover [7].

Table 3. The total asset turnover rate and current asset turnover rate from 2014-2017

Index	2014	2015	2016	2017
Total asset turnover rate	0.82	0.99	0.80	0.63
Current asset turnover rate	1.24	1.36	1.17	0.88

As shown in the table 3, after the introduction of private equity investment in 2015, Pharmablock achieved growth in both total asset turnover and current asset turnover, indicating that private equity investment has improved Pharmablock's sales ability and increased the efficiency of current asset utilization, which has had a positive impact on the company's operational capabilities. However, both indicators subsequently showed varying degrees of decline. According to the results of the annual report of Pharmablock, it can be seen that it expanded the company's scale and made other investments with the support of private equity investment institutions. Due to the increase in the company's asset size, sales growth could not keep up with the expansion speed, ultimately leading to a decrease in total asset turnover. In addition, due to changes in the management of the company after the introduction of private equity investment, it may lead to adjustments in the company's strategy, ultimately affecting the operation of the enterprise. Therefore, private equity investment may not necessarily have a negative impact on the operational capacity of Pharmablock, and further research is needed for related conclusions.

In terms of solvency, current ratio and quick ratio are selected to evaluate Pharmablock's short-term and long-term solvency, as well as its ability to repay maturing debts [8].

Table 4. The income growth rate and net profit growth rate from 2014-2017

Index	2014	2015	2016	2017
Income growth rate (%)	30.90	77.63	38.38	45.05
Net profit growth rate (%)	23.15	-11.29	81.17	86.01

As shown in the table 4, after the introduction of private equity investment in 2015, the revenue growth rate of Pharmablock experienced significant fluctuations. It first achieved a significant increase in 2015, followed by a significant decline, and ultimately only achieved a small increase. According to relevant reports, it was due to improper sales strategy adjustment by private equity investment institutions after joining, which failed to effectively attract customers, and internal management problems, ultimately leading to a decrease in revenue growth rate. The net profit growth rate increased significantly after the decline. According to the report analysis, the rich experience, resources, and financial support provided by private equity investment institutions not only improved the management and operation of Pharmablock, but also expanded its production scale and increased sales channels, ultimately achieving an increase in the company's net profit growth rate. According to the increase in total revenue and net profit of Pharmablock, it can be concluded that private equity investment has a positive impact on the growth ability of the enterprise.

3.3. Pay Attention to Several Issues

From a national perspective, the relevant supporting laws and regulations are not yet perfect, and there are still various problems in the private equity market, such as shortcomings in the supervision and investment management of fundraising, frequent violations of private equity funds, and insufficient efforts to crack down on "rat silos", which will greatly harm the healthy development of private equity.

There is a certain two-way choice between private equity investment and enterprises. Private equity investment is never a timely help, it will only add icing on the cake. After private equity investment, relevant enterprises still maintain a balance between the Falvo Bridge and the power, are familiar with and grasp, and balance efficiency and order in management decision-making. In addition, enterprises are prone to overlook relevant post investment management, or overly pursue short-term profits in evaluating the performance of the invested enterprise, emphasizing the impact of financial indicators. It is even more important to strengthen the assessment and evaluation of the overall operational results of the enterprise, while also controlling the overall management entropy,

and forming a clear identification and dynamic management mechanism. The abuse of private equity decision-making power should not be excessively allowed, and even management should be out of control.

There are also shortcomings in the management of private equity projects themselves. Taking science and technology innovation enterprises as an example, technology updates and iterations in science and technology innovation enterprises are too fast. Private equity investment project decision-making coexists with market risks, or there are problems with post investment management, allowing funds to be laissez faire and allowing enterprises to make decisions freely, resulting in a loss of management of private equity funds [9].

4. Suggestions

4.1. Government

Develop and improve relevant laws, regulations, and policies to regulate the private equity investment market and protect the interests of investors. Private equity investment institutions can only achieve long-term development under legal protection. Given the current lack of relevant laws and regulations in China, the country can learn from advanced foreign experiences, absorb advantages, and promote the improvement of relevant policies and regulations.

4.2. Enterprise

Strengthen talent cultivation and introduction, and improve the operation and management level of private equity investment. Private equity investment operations cannot be separated from professional management teams, therefore private equity investment institutions need to pay attention to cultivating and introducing relevant talents, and form their own talent training models, ultimately achieving the maximization of corporate interests and stable development of the institution [10].

4.3. Investment Institutions

Private equity investment institutions should strengthen post investment management, including enterprise strategic planning, management team building, and other aspects. At the same time, they should use their own resources and channel advantages to help enterprises integrate resources, expand channels, and ultimately improve their competitiveness and profitability.

5. Conclusion

Private equity investment has important practical significance for the development of enterprises and the movement of funds. This article takes Nanjing Pharmaceutical Group Co., Ltd. as an example and uses case analysis to interpret the process of private equity investment and investment. It also analyzes the changes in the company's financial indicators such as profitability, debt repayment ability, and development ability, and interprets the impact of private equity on the enterprise. The research results have found that private equity investment can effectively solve the financial problems of enterprises, enhance their expansion ability. If they excessively participate in internal business operations and the timing of equity exit, it may affect the debt stability of enterprises.

When analyzing the performance of Yaoshi Technology in this article, only a limited number of indicators were selected, which may lead to deviations in the measurement of enterprise performance; When selecting data, only the data from 2014 to 2017 was selected, which may have bias and requires further exploration in the future.

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