

Case Study of Reverse Merger - A Case Study on the Performance of SF Holding's Acquisition of Dingtai New Materials

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Abstract. SF Express continues to lead the Courier industry in China with its standardization, high quality and high effectiveness advantages. However, as customers' requirements for service quality continue to increase, the cost of express delivery industry continues to increase, and in the case of numerous express delivery industries and fierce competition, SF Holding's traditional business model and existing capital are difficult to stabilize its leading position in the express delivery industry. In order to ensure the expansion of its own capital and seize a favorable position in the market, SF Holding chose to go public in 2016 through the backdoor of Dingtai New Materials. This paper will explain in detail the principle, practical operation, strategy and practice behind the success of SF Express backdoor listing, and study the financial performance of SF Holding by analyzing four indicators of debt repayment, operation, development and profitability according to the financial index method, sum up the strategic experience of the enterprise, and provide effective reference for the development and transformation of similar enterprises.

Keywords: SF Holding, backdoor listing, corporate performance, financial indicators.

1. Introduction

With the rapid development of the world economy and the continuous enrichment of enterprise transformation methods, logistics enterprises are faced with opportunities and challenges. Logistics enterprises should not only enhance their competitiveness in the market, but also pay attention to the strengthening of financial cost management [1]. On October 12, the China Securities Regulatory Commission issued the announcement of the audit results of the 75th meeting in 2016, announcing that Maanshan Dingtai Rare Earth New Materials Co., Ltd. was conditionally approved by issuing shares to purchase assets. The decision means that SF Holding will enter the A-share market through the backdoor of Dingtai New Materials. Unlike previous Shentong and YTO, which successively announced backdoor restructuring and listing plans, SF Holding carried out several financial asset divestitures in the process of backdoor listing, successfully avoiding the block in the approval process. This paper takes SF Holding as the research object, focusing on the process of backdoor listing of SF Holding and the corporate performance brought by backdoor listing, so as to produce the experience value required for enterprises to better adapt to economic and social development.

2. The Fundamentals of Reverse Buying

In China's A-share market, the approval system for IPOs often leads to a lengthy and cumbersome process for companies to go public. In order to speed up the listing process, companies often choose backdoor listing as a convenient path. One of the common means of backdoor listing is through reverse purchase. Reverse purchase refers to a relatively small listed company (Company A) issuing shares to a larger company (Company B) in exchange for obtaining 100% of the equity of Company B held by the original shareholders of Company B, thus making Company B a wholly-owned subsidiary of Company A. In this process, asset replacement and supporting financing are common operating steps.

In practice, the enterprise first needs to determine an appropriate target company (B company), usually choosing a larger company with complementary businesses as the backdoor object. Company

A then issues its own common stock to the original shareholders of Company B in exchange for the stock. The number and price of shares to be issued are usually determined by market pricing or by negotiation between the parties. The original shareholders of Company B will exchange the shares held by Company B with the shares issued by Company A, making Company B a wholly-owned subsidiary of Company A. From a legal perspective, after the transaction is completed, Company B becomes a wholly-owned subsidiary of Company A, and the entire legal process of the transaction is completed. In terms of economic essence, the original shareholder of Company B obtains the equity of Company A by holding the shares issued by Company A, and realizes the control of Company A.

In the process of reverse purchase, it is usually accompanied by asset replacement and supporting financing. Asset replacement helps enterprises to clean up the assets that are not in line with the main business, so that the company after backdoor listing is more focused on the core business. Through supporting financing, the company can raise more funds for future development and expansion, and improve its financial strength. This strategic layout can not only accelerate the listing process, but also help to enhance the overall strength and market value of the company.

The advantage of reverse buying is its flexibility and ability to strategically position. Enterprises can adapt to market changes more quickly and improve their competitiveness with the help of the resources and scale advantages of the target company. However, reverse buying also comes with certain risks and challenges, including approval risks, integration difficulties, and market reactions. In the process of operation, enterprises need to carefully deal with these challenges to ensure the smooth progress of transactions. Backdoor listing through reverse purchase allows companies to more flexibly take advantage of market opportunities and enhance competitiveness, but requires careful planning during the integration process to ensure the success of the transaction.

3. SF Express Backdoor Listing Process

SF Holding's backdoor listing plan covers three main steps, through major asset replacement, issuing shares to purchase assets and raising supporting funds, and finally achieve the goal of backdoor listing. Here is a detailed breakdown of these three steps:

3.1. Great Assets Replacement

SF Holding and Dingtai New Materials carried out a major asset replacement. Dingtai New Materials valued its net assets at 800 million yuan, which was replaced with the equivalent portion of 100% equity of SF Holding held by all original shareholders of SF Holding, with a total value of 43.3 billion yuan [2]. The core of this step is to use the net assets of Dingtai New Materials as payment to SF Holding, and realize the organic exchange of assets between the two companies. Such asset replacement not only provides a substantial basis for backdoor transactions, but also helps to achieve control of the target company.

3.2. Issue Shares to Buy Assets

In order to make up the difference in the replacement of major assets, Dingtai New Materials completed the transaction by issuing shares to purchase assets. The difference of asset replacement is 42.5 billion yuan, and Dingtai New Materials issued 394981 million ordinary shares at 10.76 yuan per share to all the original shareholders of SF Holding [2]. In essence, this link raises funds in the form of issuing shares, completes the financial settlement in the transaction, and makes the original shareholders become shareholders of the new company, ensuring the rationality of the transaction.

3.3. Raise Matching Funds

In order to strengthen the financial strength of the new company after the backdoor listing, Dingtai New Materials plans to raise financing by raising matching funds. The proposed fundraising plan is to issue shares to specific investors at a price of not less than 11.03 yuan/share, and the total amount of fundraising is expected to be 8 billion yuan [2]. This step aims to obtain additional financial support

through the issuance of shares to specific investors to provide more adequate financial security for the operation and development of the new company.

3.4. Transaction Completion and Changes in the Company's Ownership Structure

After the above three steps are completed, the transaction is finally completed. According to the equity structure after the completion of the transaction, Mingde Holding (the former shareholder of SF Holding) will hold 55.04% of the total share capital of Dingtai New Materials, becoming the controlling shareholder of the company, and Mr. Wang Wei will become the actual controller of the listed company, making SF Express successfully achieve the strategic goal of backdoor listing [2]. In this process, the company's ownership structure has changed significantly, reflecting the change of the new company's control rights and actual controllers.

4. Multiple Divestments of Financial Assets

In practice, asset stripping has always been a big problem, and this process reflects the strength of the debtor [3]. Against the background of stricter approval of backdoor listing in China's capital market, SF Holding has adopted several decisive financial asset divestiture strategies and actively promoted the process of backdoor listing through this means. The implementation of this strategy spans from 2013 to 2016, involving a number of subsidiaries, including Commerce Holding, SF E-commerce, SF Business, etc. The core idea of this strategic move is to continuously reduce the proportion of financial assets, so that the new company is more focused on the core business, so as to improve the overall competitiveness in the market.

It is particularly noteworthy that in the latest asset divestiture in September, SF Holding further implemented the divestiture of financial assets such as small loans, factoring, and financial leasing. This decision realized the "crowding out" of the financial element again, so that the asset portfolio of the new company was mainly concentrated in the related high-quality business areas such as the risk control stock express logistics. The depth and frequency of this strategy shows SF Holding's determination to shape a new corporate image and enhance market recognition. By gradually divesting non-main business, the company successfully reduced the impact of financial business on the overall performance, better in line with the capital market's favor for the main business of industry, and laid a more solid foundation for backdoor listing.

This strategic action of SF Holding is not only a keen response to changes in the market environment, but also a reflection of the company's continuous optimization of its business structure and improvement of its profit quality. With the gradual divestiture of the financial business, the new company will be more able to focus on express logistics and other areas, and will be more likely to achieve more excellent performance in the industry, and lay a solid foundation for the development of backdoor listing. This strategic move to divest financial assets several times reflects SF Holding's efficient decision-making and flexible response ability when responding to market changes and regulatory challenges.

5. Group Structure and Actual Controller Change

Through the backdoor of Dingtai New Materials, the ownership structure of SF Express has undergone significant changes, and the change of the actual controller has also become an important part of this backdoor listing transaction.

Upon completion of the transaction, Mingde Holdings, the original shareholder of SF Holdings, will hold 55.04% of the total share capital of Dingtai New Materials. This means that Mingde Holdings will become the controlling shareholder of Dingtai New Materials, thus playing a key role in the decision-making and management of the entire group structure. This change in ownership structure directly affects the corporate governance structure and thus has a profound impact on future strategic planning, business development and financial decisions.

At the same time, with the adjustment of the ownership structure, Mr. Wang Wei will become the actual controller of the listed company. The change of the actual controller is often accompanied by the adjustment of the company's management and strategic adjustment. As the actual controller, Mr. Wang Wei will play an important role in the company's business decisions, strategic planning and future development direction. His deep understanding and rich experience in the logistics industry is expected to inject more vitality and innovation into the strategic layout and operation management of the new company.

The change of the group structure and actual controller is not only a simple adjustment of equity, but also a redesign of the overall strategic direction and governance structure of the enterprise. The new de facto controller and controlling shareholder will play a key role in the future development of the company, providing solid support for the company to maintain its leading position in the highly competitive logistics industry. This also shows that SF Holding has successfully created a more robust and dynamic corporate governance framework through precise strategic layout and equity structure adjustment in the backdoor listing process.

6. Financial Performance Analysis of SF Holding after Backdoor Listing

According to the financial index method, the paper analyzes from four indicators: debt paying, operation, development and profitability.

6.1. Debt Paying Ability

Table 1. SF Holding's solvency index from 2012 to 2021

Project name/Time	liquidity ratio	Quick ratio	Asset-liability ratio
2021	1.24	1.22	0.53
2020	1.23	1.21	0.49
2019	1.38	1.35	0.54
2018	1.21	1.18	0.48
2017	1.46	1.44	0.43
2016	1.16	1.13	0.53
2015	3.48	2.6	0.2
2014	3.43	2.62	0.26
2013	2.06	1.69	0.37
2012	2.51	2.11	0.31

Data Source: The above data comes from: Guotai 'an Data Network

Solvency index is often used to measure the ability of an enterprise to repay various debts. The solvency reflects the degree of risk suffered by the enterprise's finance, and the financial condition of the enterprise directly affects the debt financing, because the principal and interest of the enterprise's debt must be repaid on time. Once an enterprise raises funds through debt, it takes the initiative to bear the responsibility of repaying accounts, and it must repay debts on time regardless of whether the enterprise is profitable. In other words, during the period of enterprise debt, it may not be able to return the debt on time because of financial crisis, resulting in financial crisis [4]. As can be seen from Table 1, the current ratio and quick ratio of SF Holding generally declined first and then rose from 2012 to 2015, indicating that SF Holding's solvency declined, because SF Holding was responsible for sharing the asset cost of each branch. However, from 2016 to 2018, the current ratio and quick ratio have increased to a certain extent, indicating that backdoor listing has a certain positive effect on SF Holding's repayment of short-term debt. SF Holding's short-term solvency is relatively high, and the backdoor listing has enhanced its short-term solvency, which makes the company more able to maintain stable and rapid development. During the 2020-2021 period, the circulation of SF Express Group has decreased due to the epidemic [5].

6.2. Operation Ability

Table 2. Operating capacity indicators of SF Holding from 2012 to 2021

Project name/Time	Accounts receivable turnover	Accounts Receivable Turndays	Inventory Turnover	Inventory Turnover Days	Operating cycle
2021	8.76	41.66	143.3	2.55	44.2
2020	10.66	34.34	137.87	2.65	36.99
2019	11.31	32.28	109.02	3.35	35.63
2018	13.37	27.3	118.07	3.09	30.39
2017	13.72	26.6	134.91	2.71	29.31
2016	24.1	15.18	168.86	2.17	17.35
2015	3.51	104.036	3.74	97.5	201.53
2014	4.95	73.74	4.54	80.32	154.05
2013	4.25	85.97	4.52	80.81	166.79
2012	4.45	82.21	6.87	53.22	135.42

Data Source: Guotai 'an Data Network

As can be seen from Table 2, when SF Express was initially listed through backdoor, its operating capacity changed significantly. Overall, the fastest growth rate is the accounts receivable turnover rate, the change of accounts receivable turnover rate is considerable. It can be intuitively seen that the index of SF Express has been at a low level before its listing, indicating that SF Express cannot quickly recover its own accounts receivable, and the turnover rate of accounts receivable has been at a low level [6]. After backdoor listing, SF Express has more working capital and improved sales ability. After the backdoor listing in 2016, the turnover rate of accounts receivable has been significantly and steadily improved compared with the previous one, but the value in 2017 is smaller than the value in 2016 before the listing, due to the increase in assets in 2017 [4]. Subsequently, compared with before the backdoor listing, the turnover rate of accounts receivable has been on a downward trend since 2018, due to the impact of SF Express 'acquisition of subsidiaries and the growth of business scale. The reason why the inventory turnover rate of SF Holding has been declining from 2016 to 2020 is that the enterprise has expanded new business, the inventory has increased substantially, and the operating income has not increased in the same proportion, which makes the inventory turnover rate decrease year-on-year [7].

6.3. Development Ability

Table 3. SF Holding 2012-2021 development capability indicators

Project name/Time	Total Assets Growth Rate	Net profit growth rate	Increase rate of business revenue	Total revenue growth rate
2021	0.888	-0.435	0.345	0.345
2020	0.201	0.232	0.373	0.373
2019	0.289	0.260	0.234	0.234
2018	0.169	-0.061	0.279	0.279
2017	0.306	0.142	0.236	0.236
2016	0.271	164.567	84.992	84.992
2015	-0.081	0.042	-0.177	-0.177
2014	-0.163	-0.401	0.125	0.125
2013	0.109	-0.157	-0.134	-0.134
2012	0.004	0.154	0.206	0.206

Data Source: Guotai 'an Data Network

As can be seen from Table 3, in terms of net profit, SF Holding has greatly improved since 2015, especially after the backdoor listing in 2016. After that, the operating income growth rate of SF Holding maintained stable growth, which indicates that SF Holding has enhanced its development

ability and increased its business growth rate after backdoor listing, which is attributed to the continuous development of new markets and new businesses [7]. The negative growth of operating income in 2015 was due to the divestment of some underperforming businesses by SF Express in September 2015, which slowed down the growth rate of the company's operating income. However, during this period, the company's revenue growth rate turned from negative to positive, which indicates that the company's operating strength has been greatly improved [5].

6.4. Profitability

Table 4. Profitability indicators of SF Holding from 2012 to 2021

Project name/Time	Net assets income rate	Gross operating margin	Net operating margin
2021	0.051	0.124	0.019
2020	0.141	0.164	0.045
2019	0.142	0.174	0.051
2018	0.128	0.179	0.049
2017	0.178	0.201	0.067
2016	0.391	0.197	0.072
2015	0.035	0.144	0.038
2014	0.033	0.131	0.031
2013	0.056	0.140	0.055
2012	0.067	0.133	0.057

Data Source: Guotai 'an Data Network

It can be seen from Table 4 that the return on equity of SF Holding fluctuates up and down, and the major years with large changes in various indicators are 2016, 2017, 2018 and 2021. In 2016, the profitability index soared sharply due to the backdoor listing. After that, the return on equity, gross operating margin and net operating margin showed a decreasing trend mainly due to the decline in net profit and the increase in total cost of sales, among other reasons, including: SF Express continued to expand new businesses in order to expand market share, resulting in large initial investment cost; A large number of fixed assets, construction in progress resulting in accumulated depreciation, amortization and so on. But this kind of investment has certain benefits for the future development of the company [7]. The return on equity increased significantly in the year of the backdoor listing, which indicates that after the backdoor listing, along with the investment in projects and business expansion of the raised funds, the company's profitability was improved, operating costs were reduced, and more value was created for shareholders. The profitability of SF Express has been recognized and dropped after the backdoor listing in time, but it is still higher than the initial value. On the one hand, the operation efficiency and operating level of SF Express have become higher and higher after the backdoor listing. On the other hand, after SF Express successfully entered the capital market through the backdoor listing, the brand effect has been promoted, service quality has been improved and customer loyalty has been enhanced. The profitability of enterprises has been improved [8].

7. Strategy and Practice behind Success

Proper strategic positioning is an effective way to improve financial performance after backdoor listing. SF Express divested its financial asset business in the early stage of the backdoor listing, cleverly avoiding the strict regulatory conditions of the country [9]. The implementation of this strategy demonstrates the company's high degree of flexibility and sensitivity in the face of complex market environments and approval processes. By decisively divesting multiple rounds of financial assets, especially in the context of stricter approval, SF Express has successfully shortened the time for backdoor listing and effectively avoided possible blocks in the approval process. This is not only an affirmation of the reaction speed of the company's strategic decision-making level, but also a recognition of its high level of operational risk management and strategy execution. Secondly, the funds raised by backdoor listing will be invested in scientific and technological research and

development to improve sustainable competitiveness. Therefore, backdoor enterprises should take advantage of various favorable conditions brought by listing, and improve capital structure and enterprise innovation according to their own positioning [9].

8. Compare Backdoor Deals with Other Delivery Companies

Compared with competitors such as STO and YTO, SF Express's backdoor listing program has shown a more positive market response in terms of valuation. SF Express is valued at 43.3 billion yuan, much higher than YTO's 17.5 billion yuan and STO's 16.9 billion yuan. Taking into account the market value after the issuance, according to the current share price calculation, the market value of YTO Express and STO Express after the completion of the backdoor is 48.9 billion yuan and 42.9 billion yuan respectively [10].

The difference may reflect investors' higher confidence in SF Express's future performance. As we all know, SF Express has always maintained a leading position in the share of China's express delivery market, and its strong logistics network and efficient service level have made it stand out in the highly competitive industry. Investors' expectations that SF Express can further expand its market share and improve its profitability after the backdoor may be one of the main reasons for the relatively high valuation.

The PE of SF Holding corresponding to the performance commitment from 2016 to 2018 is 31 times, 24 times and 19 times respectively, which is the lowest compared with YTO and STO. This indicates that investors' expectations for SF Express's future performance growth are relatively conservative, and it also indicates that SF Express is more pragmatic and cautious in making commitments.

SF Holding successfully realized backdoor listing through clever strategic layout and flexible financial asset stripping. Compared with its peers, its higher valuation reflects the market's recognition of its development potential and competitive advantages, laying a solid foundation for the company's future development in the capital market.

9. Conclusion

SF Holding, which successfully went public through the backdoor of Dingtai New Materials, has shown its keen ability to cope with market changes under the strategic layout of multiple financial asset divestitures. Its high valuation reflects not only the strength of the company's business, but also investors' confidence in its future growth potential. This successful case provides a model for other companies to flexibly use their strategy in backdoor listing, especially in the context of stricter approval in the capital market, enterprises need to be more flexible in order to seek a faster listing channel. SF Holding's experience has positive implications for understanding corporate strategic planning in terms of reverse purchase, backdoor listing and strategic adjustment.

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